

State of New Mexico Office of the Natural Resources Trustee

Basic Financial Statements
and
Independent Auditors' Report

June 30, 2008

State of New Mexico Office of the Natural Resources Trustee

Table of Contents

	Page
Official Roster	1
Financial Section	
Independent Auditors' Report	2 - 3
Management's Discussion and Analysis	4 - 10
Government-Wide Financial Statements	
<u>Exhibit 1</u> - Statement of Net Assets	11
<u>Exhibit 2</u> - Statement of Activities	12
Fund Financial Statements	
<u>Exhibit 3</u> - Balance Sheet – Governmental Funds	13
<u>Exhibit 4</u> – Reconciliation of the Balance Sheet to the Statement of Net Assets	14
<u>Exhibit 5</u> – Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	15
<u>Exhibit 6</u> – Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	16
<u>Exhibit 7</u> – Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual (Budgetary Basis) - General Fund	17
<u>Exhibit 8</u> – Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual (Budgetary Basis) – Trustee Fund	18

**State of New Mexico
Office of the Natural Resources Trustee**

Table of Contents – continued

	Page
Notes to Financial Statements	19 - 34
Supplementary Information	
<u>Schedule 1</u> - Schedule of Cash and Investments	35
<u>Schedule 2</u> - Interagency Transfers	36
<u>Schedule 3</u> - Joint Powers Agreements	37 – 42
Independent Auditor’s Report on	
Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43 - 44
Schedule of Findings and Responses	45 - 46
Status of Prior Year Audit Findings	47
Exit Conference	48

**State of New Mexico
Office of the Natural Resources Trustee**

Official Roster

<u>Name</u>	<u>Title</u>
Jim Baca	Trustee
Rebecca Neri Zagal	Executive Director
William Fetner	Environmental Scientist
Elysia Martinez	Administrative Assistant

Independent Auditors' Report

Jim Baca, Trustee
Office of the Natural Resources Trustee, State of New Mexico
610 Gold Ave. SW, Suite 236
Albuquerque, New Mexico 87102
And
Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, each major fund, and the respective budgetary comparisons of the State of New Mexico Office of the Natural Resources Trustee (the "Office"), as of and for the year ended June 30, 2008, which collectively comprise the Office's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Office'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 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 the 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 Office of Natural Resources Trustee, State of New Mexico, are intended to present the financial position, and the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, each major fund and the respective budgetary comparisons that is attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2008, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

6729 Academy Rd. NE
Suite C
Albuquerque, NM 87109
Office **505 293 5009**
Fax **505 293 3597**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the State of New Mexico Office of the Natural Resources Trustee, as of June 30, 2008, and the respective changes in financial position thereof and the respective budgetary comparisons for the governmental activities 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 Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information 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 on the financial statements that collectively comprise the State of New Mexico Office of the Natural Resources Trustee basic financial statements. The accompanying supplementary information listed as schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, such information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Nick Loftis, CPA LLC

Albuquerque, New Mexico
December 10, 2008

State of New Mexico
Office of the Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2008

This section of the financial report presents a discussion and analysis of the State of New Mexico Office of the Natural Resources Trustee (Office) financial performance during the fiscal year ended June 30, 2008. Please read it in conjunction with the Office's financial statements, which follow this section.

The Management's Discussion and Analysis and the accompanying financial statements cover all activities of the Office.

Financial Highlights

Net Assets:

- ◆ At June 30, 2008, assets of the Office exceeded its liabilities by approximately \$1.3 million (net assets), all of which was restricted for Natural Resource Damage and Assessment Recovery Program (NRDAR program) activities. At June 30, 2007, assets of the Office exceeded its liabilities by approximately \$1.1 million, all of which was restricted for NRDAR Program activities. From June 30, 2007 to June 30, 2008, the Office's total net assets increased by approximately \$232,000.

Governmental Funds:

- ◆ As of the close of the current fiscal year, the Office's governmental funds reported reserved and restricted for NRDAR program activities fund balances of \$100 and approximately \$1,287,000, respectively. During the year ended June 30, 2008, the Office's governmental funds total fund balances increased by approximately \$235,000.

Office Highlights

The mission of the Office is to return injured natural resources to the condition they would have been absent the release of contamination. The goal of the Program is to restore, replace or acquire the equivalent of injured, destroyed or lost natural resources.

Accomplishments in fiscal year 2008:

- ◆ Restoration projects initiated during the year included:
 - ◆ Mid-Region Council of Governments – Isleta Pueblo Bosque Invasive Species Removal
 - ◆ Bernalillo County – South Valley Household Sewer/Water Connections
 - ◆ NM Environment Department – South Valley Groundwater Restoration: removal of nitrate contamination

State of New Mexico
Office of the Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2008

- ◆ City of Albuquerque/Water Trust Board – Rio Grande Valley State Park Re-Vegetation

- ◆ Restoration projects in progress in fiscal year 2008:
 - ◆ City of Albuquerque – Rio Grande Valley State Park Re-Vegetation
 - ◆ Whitfield Wildlife Conservation Area Riparian Planting Project
 - ◆ Central Curry Soil and Water Conservation District – Curry County Playa Preservation

- ◆ Restoration projects completed in fiscal year 2008:
 - ◆ Seboyeta Land Grant – Cebolleta Wastewater Treatment System Restoration Project

- ◆ Conserved 726 acre-feet of water through restoration
- ◆ Restored 1,110 acres of habitat

Overview of Financial Statements

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide a broad overview of the Office's finances in a manner similar to a private sector business. Fund financial statements report the Office's operations in more detail than the office-wide statements by providing information about the Office's most significant funds. Fund financial statements include:

- ◆ Governmental fund financial statements that show how office services such as environmental and support services were financed in the short-term and what remains for future spending.

The financial statements also include notes that explain the information in the financial statements and provide more detail.

Office-Wide Statements

One of the most important questions asked about the Office's finances may be, "Is the Office as a whole, better off or worse off, as a result of the year's activities?" The statement of net assets and the statement of activities report information about the Office as a whole and about its activities in such a way that helps answer this question. All of the Office's activities are reported as governmental activities. These activities are financed primarily through State of New Mexico general fund appropriations, the recovery of damages for injury to, destruction of or loss of New Mexico's natural resources and investment income.

State of New Mexico
Office of the Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2008

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Office's net assets and changes in them. You can think of Office net assets, the difference between assets and liabilities, as one way to measure the Office's financial health, or financial position.

Over time, increases or decreases in the Office's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the scope or size of operations, and other potential influences from state or federal governance.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the Office as a whole. Separate funds are established by the Office to help control and manage revenues and expenditures for particular purposes or to show that it is meeting legal responsibilities for using specific damage assessment money. Additionally, separate funds are maintained to ensure funds are not comingled. The fund type used by the Office and its accounting approach are described below:

- ◆ *Governmental Funds* – All of the Office's basic services are reported in governmental funds. Governmental funds focus on how cash and other financial assets flow in and out, and the balances that are left at year-end available for future spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Office's programs. Because this information does not encompass the additional long-term focus of the office-wide financial statements, we provide additional information at the bottom of the governmental fund financial statements, or on a subsequent page, that explains the relationship (or differences) between governmental activities and balances reported in the statement of net assets and the statement of activities and governmental fund financial statements.

State of New Mexico
Office of the Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Office-Wide Financial Analysis

Net assets. The following table reflects the condensed statement of net assets for 2008, with comparative totals for 2007.

Table 1
Net Assets

	<u>2008</u>	<u>2007</u>
Assets		
Current and other assets	\$ 7,678,751	\$ 6,291,235
Capital assets, net	<u>-</u>	<u>-</u>
Total assets	<u>7,678,751</u>	<u>6,291,235</u>
Liabilities		
Current liabilities	276,693	239,374
Long-term liabilities	<u>6,127,125</u>	<u>5,009,043</u>
Total liabilities	<u>6,403,818</u>	<u>5,248,417</u>
Net assets		
Invested in capital assets	-	-
Restricted for Program activities	1,287,076	1,042,818
Unrestricted (deficit)	<u>(12,143)</u>	<u>-</u>
Total net assets	<u>\$ 1,274,933</u>	<u>\$ 1,042,818</u>

The Office's combined net assets increased by \$232,115 (22.2%) during the year. The increase was primarily attributable to environmental program revenues exceeding current year expenditures and earnings on investments. During 2008, the Office's management determined that certain amounts reported as deferred revenue in the prior year financial statements included cost recovery revenue earned in prior periods.

State of New Mexico
Office of the Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Change in Net Assets. The table below provides a summary of the change in net assets for the year ended June 30, 2008, with comparative totals for 2007.

Table 2
Change in Net Assets

	<u>2008</u>	<u>2007</u>
Expenses		
Program		
General government	\$ 403,759	\$ 673,545
NRDAR Program	331,653	-
Depreciation	-	511
Total expenses	<u>735,412</u>	<u>674,056</u>
Revenues		
Program revenues		
Federal revenue	-	207,561
NRDAR Program	<u>282,643</u>	<u>218,986</u>
Total program revenues	<u>282,643</u>	<u>426,547</u>
Excess/(deficiency) before general revenues and transfers	(452,769)	(247,509)
General revenues and transfers		
State general fund appropriations	417,500	746,300
State general fund reversions	(16,451)	-
Interest income	<u>283,835</u>	<u>279,841</u>
Total general revenues and transfers	<u>684,884</u>	<u>1,026,141</u>
Change in net assets	232,115	778,632
Net assets, beginning of year as previously stated	896,549	117,917
Prior period adjustment	<u>146,269</u>	-
Net assets, beginning of year, restated	<u>1,042,818</u>	<u>117,917</u>
Net assets, end of year	<u>\$ 1,274,933</u>	<u>\$ 896,549</u>

The Office spent \$735,412, which was offset by \$983,978 of program revenue, State of New Mexico general fund appropriations and investment income. During 2008, the Office's management determined that certain amounts reported as deferred revenue in the prior year financial statements included cost recovery revenue earned in prior periods. Such amounts have been adjusted to net assets in the 2008 financial statements.

State of New Mexico
Office of the Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2008

The increase in net assets was primarily due to investment income on Trustee fund investments in the State of New Mexico general fund investment pool.

Financial Analysis of the Office's Funds

The focus of the Office's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. In particular, *unrestricted and restricted fund balances* serve as useful measures of a government's net resources available for future spending on unrestricted and Program restricted activities.

As of the end of the current year, the Office's governmental funds reported reserved and restricted for NRDAR Program activities fund balances of \$100 and \$1,287,076, respectively, a net increase of \$234,824 from the prior year.

Capital Assets

The Office made no investments in capital assets during fiscal year 2008. Depreciation expense was \$0 and \$511 for the years ended June 30, 2008 and 2007, respectively. Note 4 provides additional details of the Office's capital assets.

Economic Factors and Budget Information

The Office depends on appropriations from the State of New Mexico General Fund. Total recurring general fund revenue for fiscal year 2008 was \$417,500. As of the end of the year the Office had not expended \$16,451 of these appropriations and has recorded a liability (reversion) in the same amount as due to the State General Fund.

During fiscal year 2007, at the request of the Office, the New Mexico Attorney General's Office provided the Office with legal guidance which indicated that interest earned on Trustee Fund deposits are required to be used by the Trustee to restore, replace and acquire the equivalent of injured natural resources and cannot be used for any other purpose. The Office provided this guidance to the New Mexico Legislature and the Department of Finance and Administration.

Beginning with fiscal year 2008 the Office is authorized to expend funds directly from the Trustee Fund.

State of New Mexico
Office of the Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Requests for Information

The financial report is designed to provide a general overview of the Office's finances and demonstrate its accountability for the money received. If you have any questions about this report or need additional financial information contact:

Office of the Natural Resources Trustee
610 Gold Ave. SW, Suite 236
Albuquerque, New Mexico 87102

Basic Financial Statements

State of New Mexico
Office of the Natural Resources Trustee
Statement of Net Assets
June 30, 2008

	Governmental Activities
Assets	
Current assets	
Investment in State Treasurers General Fund Investment Pool	\$ 7,640,786
Due from other agencies	37,965
Total current assets	7,678,751
Noncurrent assets	
Capital assets	10,913
Less accumulated depreciation	(10,913)
Total noncurrent assets	-
Total assets	\$ 7,678,751
Liabilities	
Current liabilities	
Accounts payable	\$ 226,457
Accrued wages	6,206
Accrued payroll taxes and benefits	11,872
Due to other state agencies	5,300
Due to state general fund	16,451
Compensated absences	10,407
Total current liabilities	276,693
Noncurrent liabilities	
Deferred revenue	6,125,289
Compensated absences	1,836
Total noncurrent liabilities	6,127,125
Total liabilities	\$ 6,403,818
Net assets	
Restricted for Program activities	1,287,076
Unrestricted (deficit)	(12,143)
Total net assets	\$ 1,274,933

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

State of New Mexico
Office of the Natural Resources Trustee
Statement of Activities
For the Year Ended June 30, 2008

	<u>Governmental Activities</u>
Expenses	
General government	\$ 403,759
NRDAR Program	<u>331,653</u>
Total expenses	<u>735,412</u>
Program revenue	
NRDAR Program	<u>282,643</u>
Total program revenue	<u>282,643</u>
Net program expense	(452,769)
General revenues and transfers	
State general fund appropriations	417,500
Interest	283,835
Reversion to the State General Fund	<u>(16,451)</u>
Total general revenues and transfers	<u>684,884</u>
Change in net assets	232,115
Net assets, beginning of year	
as previously stated	896,549
Prior period adjustment	<u>146,269</u>
Net assets, beginning of year, restated	<u>1,042,818</u>
Net assets, end of year	<u>\$ 1,274,933</u>

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

State of New Mexico
Office of the Natural Resources Trustee
 Balance Sheet
 Governmental Funds
 June 30, 2008

	General Fund	Trustee Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Investment in State general fund investment pool	\$ 41,235	\$ 7,599,551	\$ 7,640,786
Due from other agencies	-	37,965	37,965
Total assets	<u>\$ 41,235</u>	<u>\$ 7,637,516</u>	<u>\$ 7,678,751</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 6,406	\$ 220,051	\$ 226,457
Accrued wages	6,206	-	6,206
Accrued payroll taxes and benefits	11,872	-	11,872
Due to other agencies	200	5,100	5,300
Due to state general fund	16,451	-	16,451
Deferred Revenue	-	6,125,289	6,125,289
Total liabilities	<u>41,135</u>	<u>6,350,440</u>	<u>6,391,575</u>
Fund balances			
Reserved for petty cash	100	-	100
Restricted for Program activities	-	1,287,076	1,287,076
Total fund balances	<u>100</u>	<u>1,287,076</u>	<u>1,287,176</u>
Total liabilities and fund balances	<u>\$ 41,235</u>	<u>\$ 7,637,516</u>	<u>\$ 7,678,751</u>

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

State of New Mexico
Office of the Natural Resources Trustee
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2008

Total fund balances for governmental funds	\$ 1,287,176
--	--------------

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:

Computer equipment and furniture	\$	10,913
Accumulated depreciation		<u>(10,913)</u>

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Compensated absences	<u>(12,243)</u>
----------------------	-----------------

Net assets of governmental activities	<u>\$ 1,274,933</u>
--	----------------------------

State of New Mexico
Office of the Natural Resources Trustee
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
June 30, 2008

	General Fund	Trustee Fund	Total Governmental Funds
Revenues			
Interest income	\$ -	\$ 283,834	\$ 283,834
NRDAR Program	-	282,643	282,643
Total revenue	<u>-</u>	<u>566,477</u>	<u>566,477</u>
Expenditures			
General government	401,049	-	401,049
NRDAR Program	-	331,653	331,653
Total expenditures	<u>401,049</u>	<u>331,653</u>	<u>732,702</u>
Revenues over/(under) expenditures before other financing sources (uses)	(401,049)	234,824	(166,225)
Other financing sources (uses)			
State general fund appropriations	417,500	-	417,500
Reversion to the State General Fund	(16,451)	-	(16,451)
Total other financing sources (uses)	<u>401,049</u>	<u>-</u>	<u>401,049</u>
Net change in fund balances	-	234,824	234,824
Fund balances, beginning of year, as previously stated	100	905,983	906,083
Prior period adjustment	-	146,269	146,269
Fund balances, beginning of year, restated	<u>100</u>	<u>1,052,252</u>	<u>1,052,352</u>
Fund balances, end of year	<u>\$ 100</u>	<u>\$ 1,287,076</u>	<u>\$ 1,287,176</u>

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

State of New Mexico
Office of the Natural Resources Trustee
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances –
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$ 234,824
---	-------------------

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

The Office accumulates compensated absences for employees at year-end. This amount represents the retirement of the accrued compensated absences not reported in the funds.

(2,709)

Change in net assets of governmental activities	<u>\$ 232,115</u>
--	--------------------------

State of New Mexico
Office of the Natural Resources Trustee
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 2)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Interest income	\$ -	\$ -	\$ -	\$ -
NRDAR Program	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
General government	417,500	417,500	401,049	16,451
NRDAR Program	-	-	-	-
Total expenditures	<u>417,500</u>	<u>417,500</u>	<u>401,049</u>	<u>16,451</u>
Revenues over/(under) expenditures before other financing sources/(uses)	(417,500)	(417,500)	(401,049)	16,451
Other financing sources (uses):				
Designated cash	-	-	-	-
State general fund appropriations	417,500	417,500	417,500	-
State general fund reversions	-	-	(16,451)	(16,451)
Total other financing sources (uses)	<u>417,500</u>	<u>417,500</u>	<u>401,049</u>	<u>(16,451)</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year, as previously stated	-	-	100	100
Prior period adjustment	-	-	-	-
Fund balance beginning of year, restated	<u>-</u>	<u>-</u>	<u>100</u>	<u>100</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100</u>	<u>\$ 100</u>

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

Exhibit 8

State of New Mexico
Office of the Natural Resources Trustee
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Trustee Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note 2)	Final Budget Favorable (Unfavorable)
Revenues				
Interest income	\$ -	\$ -	\$ 283,834	\$ 283,834
NRDAR Program	-	-	282,643	282,643
Total revenues	-	-	566,477	566,477
Expenditures				
General government	-	-	-	-
NRDAR Program	-	1,000,000	331,653	668,347
Total expenditures	-	1,000,000	331,653	668,347
Revenues over/(under) expenditures before other financing sources/(uses)	-	(1,000,000)	234,824	(101,870)
Other financing sources (uses):				
Designated cash		1,000,000		
State general fund appropriations	-	-	-	-
State general fund reversions	-	-	-	-
Total other financing sources (uses)	-	1,000,000	-	-
Net change in fund balance	-	-	234,824	(101,870)
Fund balance, beginning of year, as previously stated	-	-	905,983	905,983
Prior period adjustment	-	-	146,269	146,269
Fund balance beginning of year, restated	-	-	1,052,252	1,052,252
Fund balance, end of year	\$ -	\$ -	\$ 1,287,076	\$ 950,382

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

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

1) Summary of Significant Accounting Policies

Accounting Standards

The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. GASB standards and interpretations constitute GAAP for governments. As permitted by GASB Statement 20, the Office has elected to apply pronouncements of the Financial Accounting Standards Board (FASB) issued subsequent to November 30, 1989, except those conflicting with GASB pronouncements, in the accounting for business-type activities and enterprise funds.

The State of New Mexico Office of the Natural Resources Trustee (Office) financial statements have been prepared in accordance with the reporting model defined by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

Reporting Entity

The financial reporting entity as defined by GASB Statement No. 14 consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government."

A primary government is any state government or general purpose government consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The Office, therefore, is part of the primary government of the State of New Mexico (State) and its financial data should be included with the financial data of the State. However, the State does not currently issue an audited comprehensive annual financial report inclusive of all agencies of the primary government. The Office has no component units that are required to be included in its financial statements.

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

1) Summary of Significant Accounting Policies – continued

The Laws of 1993, Chapter 292, and the Natural Resources Trustee Act created the Office of the Natural Resources Trustee. The Statutory authority is contained in Chapter 75, Article 7 (75-7-1 to 75-7-5 NMSA 1978).

The Natural Resources Trustee (Trustee) is appointed by and serves at the direction of the Governor, pursuant to the provisions of the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, the Federal Water Pollution Control Act and any other applicable federal law. The Natural Resources Trustee shall act on behalf of the public as trustee of natural resources belonging to, managed by, controlled by or appertaining to the state, including protecting and representing the state's interest under applicable laws regarding injury to, destruction of or loss of natural resources in the state.

The Office is administratively attached to the State of New Mexico Environment Department (Department). The administrative head of the Office is the Trustee. The Office solely conducts the functions of the entity with accounting and administrative assistance provided by the Department.

Basis of Presentation

Basic Financial Statements

The basic financial statements of the Office include the office-wide and the fund financial statements. The Office as a whole is the focus of the government-wide financial statements, while additional and detailed information about the Office's governmental activities is reported in the fund financial statements. The Office is a single-purpose governmental entity that has no business-type activities.

Office-Wide Financial Statements

The Office-wide statement of net assets and statement of activities display information about the Office. Fiduciary funds and component units that are fiduciary in nature are not included. These statements include the financial activities of the Office as a whole. Eliminations have been made to minimize the double counting of internal activities.

The Office's activities are financed primarily from appropriations by the State of New Mexico General Fund, cost recovery, restoration settlements and interest income.

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

1) Summary of Significant Accounting Policies – continued

The office-wide statement of activities reflects the cost of programs and functions (general government, NRDAR Program) reduced by directly associated revenues (State appropriations, cost recovery, restoration settlements, interest income and reversions to the State of New Mexico General Fund) to arrive at the net revenue or expense for each program and function.

Net Program revenue or expenditure for governmental activities is then adjusted for general revenues to determine the change in net assets for the year. Indirect expenses such as support services and administration incurred in the general government and other functions/activities are allocated to programs/functions that they may benefit.

Fund Financial Statements

The fund financial statements provide information about the Office's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. The Office has no business-type activities and has two governmental funds, both of which are presented as major.

The Office reports the following major governmental funds:

- *General fund (SHARE Fund #49300)* – This is the general operating fund of the Office. It is used to account for all financial resources except those required to be accounted for in another fund. Any unencumbered balance remaining in the general fund from state appropriation at the end of the fiscal year reverts to the general fund of the State.
- *Trustee fund (SHARE Fund #90000)* – This is an expendable trust fund accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent. The Office's Trustee Fund accounts for money recovered for the state by or on behalf of the Office in the form of awards for damage to the state's natural resources in amounts calculated in accordance with federal law.

Revenues deposited in the fund that compensate for the state's expenses in investigating, assessing and collecting damages and enforcing the state's rights are available for appropriation to carry out the provisions of the Natural Resources Trustee Act.

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

1) Summary of Significant Accounting Policies – continued

Other revenues deposited in this fund may only be used to restore, replace or acquire natural resources in an area where natural resources have been injured, destroyed or lost, provided that the money shall be disbursed to restore, replace or acquire natural resources in the same area. Money deposited in this fund does not revert at year-end per 75-7-5 NMSA 1978.

Money in the Office's Trustee Fund is invested through the State Treasurer. Interest and earnings from the fund do not revert to the State General Fund per 75-7-5 NMSA 1978.

Basis of Accounting

The office-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of when the related cash flow takes place.

Governmental funds are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Office considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

1) Summary of Significant Accounting Policies – continued

Investments

All funds allotted to the Office are appropriated from the State General Fund. The Office invests all excess funds in the State General Fund Investment Pool managed by the Office of the State Treasurer. The State Treasurer's scope of authority for the types of investments that may be made with state funds is statutorily defined and governed by the State Treasurer's Investment Policy approved by the State Board of Finance. The State Treasurer issues separate financial statements which disclose the collateral pledged to secure these deposits and the categories of risk involved.

Capital Assets

Capital assets are reported in the office-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not known. Contributed assets, including those from the federal government, are recorded at estimated fair value on the date received. Additions, improvements and other capital outlays greater than \$5,000 that significantly extend the useful life of an asset are capitalized. Costs incurred for repairs and maintenance is expensed as incurred. Section 12-6-10 NMSA 1978 changed the capitalization threshold for capital assets from items costing more than \$1,000 to \$5,000. Under this new law, items in the capital asset inventory that do not meet the new capitalization threshold continue to be depreciated in future periods until they are fully depreciated.

Depreciation is computed using the straight-line method. The estimated useful lives used to depreciate assets, by asset class, are as follows:

Computer equipment	3 years
Furniture	5 years

Compensated Absences

It is the policy of the Office to permit employees to accumulate earned but unused vacation and sick pay benefits. No expenditure is reported for these amounts in the fund financial statements.

Qualified employees are entitled to accumulate vacation leave according to a graduated leave schedule of 80 to 160 hours per year, depending upon the length of service and the employee's hire date.

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

1) Summary of Significant Accounting Policies – continued

A maximum of thirty working days (240 hours) of such accumulated vacation leave may be carried forward to the next calendar year and any amount in excess of this limit is forfeited.

When employees terminate, they are compensated for accumulated unpaid vacation leave as of the date of termination, up to a maximum of thirty days (240).

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave which an employee may accumulate. Once per fiscal year in either January or July, employees may elect to be paid for 50% of accrued sick leave in excess of 600 hours up to 720 hours. In the case of retiring employees, they may be paid for 50% of accrued sick leave in excess of 600 hours up to 1,000 hours.

Reservations and Designations

Reservations of fund balance are created to either satisfy legal covenants that require a portion of fund balance to be segregated or to identify the portion of fund balance that is not appropriated for future expenditure.

Net Assets

In the office-wide financial statements net assets are reported in three categories: net assets invested in capital assets, net of related debt, net assets restricted for Program activities and unrestricted (deficit) net assets. Net assets invested in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal or related debt, if any. Net assets restricted for Program activities represent net assets restricted for activities to restore, replace or acquire the equivalent of injured natural resources within the state. All other net assets are considered unrestricted. When expenditures are incurred for purposes for which both restricted net assets and unrestricted net assets are available, the Office first uses unrestricted resources and then restricted resources.

Revenue Recognition

Governmental Fund Types – Revenues from federal grants, restoration settlements and damage assessments, which are restricted as to the purpose of expenditure, are recognized as earned when the related Program expenditures are incurred. Funds received but not yet earned are recorded as deferred revenues. Funds earned but not yet received are reported as due from other governments.

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

1) Summary of Significant Accounting Policies – continued

All other major governmental revenues are recorded when received, because they are either not available soon enough to pay liabilities of the current period or are not objectively measurable.

Transfers

Transfers between funds represent routine cash transfers to provide financial support for the normal operations of the receiving funds.

Deferred Revenue

Revenues received before they are earned are reported as deferred revenue. Deferred revenue of \$6,125,289 consists of settlements received for damages to natural resources. The money shall remain as deferred revenue until such time as the money is budgeted to carry out the provisions of the New Mexico Natural Resources Trustee Act by restoring, replacing or acquiring the equivalent of such natural resources.

Budgetary Data

The New Mexico State Legislature (Legislature) makes annual appropriations to the Office. Legal compliance is monitored through the establishment of an annual budget for the general fund.

The following are the procedures followed in establishing the budgetary data presented in the financial statements:

1. The Office submits a proposed budget to the legislature by September 1st for the following fiscal year commencing July 1st. The legislature must approve the budget prior to its legal enactment.
2. The expenditures and encumbrances of each category may not legally exceed the budget for that category. Budgets are controlled at the "category" level within activities (personal services, employee benefits, etc.)
3. Any adjustments to the budget must be submitted to and approved by the State of New Mexico Department of Finance and Administration (DFA) in the form of a budget adjustment request.

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

1) Summary of Significant Accounting Policies – continued

4. Per the General Appropriation Act, Laws of 2007, Chapter 28, Section 3, item N, "For the purpose of administering the General Appropriation Act of 2007 and approving operating budgets, the state of New Mexico shall follow 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." The budget is adopted on the modified accrual basis of accounting except for 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. Encumbrances related to single year appropriations lapse at year end. Appropriation periods are sometimes for periods in excess of one twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget. The legal level of budgetary control should be disclosed.

The Office has been designated as a "reverting agency" by the legislature and, therefore, unencumbered balances in state agency operating accounts remaining at the end of the fiscal year from appropriations made from the State general fund shall revert to the State general fund, unless otherwise indicated in the General Appropriation Act or otherwise provided by law.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances are no longer carried as fund balance reservations at year-end unless procedures to roll the encumbrance to the next budget year have been followed and approved by the Department of Finance and Administration's Budget Division. The office had no such encumbrances at year-end.

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

2) Investments

Cash and investments in the State Treasurer's General Fund Investment Pool consists of investments in the following accounts:

Account Name	Fair Value	Investment Maturities Less than 1 Year
SHARE Fund 90000 investments in the State Treasurer General Fund Investment Pool	\$ 7,599,551	\$ 7,599,551
SHARE Fund 49300 investments in the State Treasurer General Fund Investment Pool	<u>41,235</u>	<u>41,235</u>
Total investments in the State Treasurer General Fund Investment Pool	<u>\$ 7,640,786</u>	<u>\$ 7,640,786</u>

All of the Office's cash is on deposit with the State Treasurer in the General Fund Investment Pool (GFIP). The State Treasurer has the authority to invest money held in demand deposits and not immediately needed for the operation of state government in securities in accordance with Sections 6-10-10 I through O, NMSA 1978 as amended. The State Treasurer, with the advice and consent of the state board of finance, can invest money held in demand deposits and not immediately needed for the operation of the state government in:

- (a) Securities issued by the United States (U.S.) government or by its departments or agencies that are either direct obligations of the U.S. or are backed by the full faith and credit of the U.S. government or agencies sponsored by the U.S. government.
- (b) Contracts for the present purchase and resale at a specified time in the future, not to exceed one year, or in the case of bond proceeds, not to exceed three years, of specific securities at specified prices at a price differential representing the interest income to be earned by the state. No such contract shall be invested in unless the contract is fully secured by obligations of the United States or its agencies or by other securities backed by the United

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

1) Investments - continued

States or its agencies or instrumentalities having a market value of at least one hundred two percent of the amount of the contract. The securities required as collateral shall be delivered to a third-party custodian bank and delivery shall be made simultaneously with the transfer, no later than the same day the funds are transferred.

The contracting bank, brokerage firm or institutional investor must have a net worth in excess of five hundred million dollars.

- (c) Contracts for the temporary exchange of state-owned securities for the use of broker-dealers, banks or other recognized institutional investors in securities, for periods not to exceed one year for a specified fee rate. No such contract shall be invested in unless the contract is fully secured by exchange of an irrevocable letter of credit running to the state, cash or equivalent collateral of at least one hundred two percent of the market value of the securities plus accrued interest temporarily exchanged. The collateral required shall be delivered to the fiscal agent of New Mexico or the designee simultaneously with the transfer of funds, no later than the same day the state-owned securities are transferred. The contracting bank, brokerage firm or institutional investor must have a net worth in excess of five hundred million dollars.
- (d) Any of the following investments in an amount not to exceed forty percent of any fund that the state treasurer invests: (1) commercial paper rated "prime" quality by a national rating service, issued by corporations organized and operating within the U.S.; (2) medium-term notes and corporate notes with a maturity not exceeding five years that are rated A or its equivalent or better by a nationally recognized rating service and that are issued by a corporation organized and operating in the U.S.; or (3) an asset-backed obligation with a maturity not exceeding five years that is rated AAA or its equivalent by a nationally recognized rating service.
- (e) Shares of an open-ended diversified investment company that is registered with the U.S. Securities and Exchange Commission (SEC), complies with the diversification, quality and maturity requirements of Rule 2a-7, or any successor rule, or the SEC rules applicable to money market mutual funds; and assesses no fees pursuant to Rule 12b-1, or any successor rule, no sales load on the purchase of shares and no contingent deferred sales charge or other similar charges, provided that the state shall not, at any time, own more than five percent of a money market mutual fund's assets.

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

2) Investments - continued

- (f) Individual, common or collective trust funds of banks or trust companies that invest in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b), and (d) above, provided that the investment manager has assets under management of at least one billion dollars and the investments made by the state treasurer pursuant to this paragraph are less than five percent of the assets of the individual, common or collective trust fund.

Public funds to be invested in negotiable securities or loans to financial institutions fully secured by negotiable securities at current market value shall not be paid out unless there is a contemporaneous transfer of the securities at the earliest time industry practice permits, but in all cases, settlement shall be on a same-day basis either by physical delivery or, in the case of un-certified securities, by appropriate book entry on the books of the issuer, to the purchaser or to a reputable safekeeping financial institution acting as agent or trustee for the purchaser, which agent or trustee shall furnish timely confirmation to the purchaser.

For additional disclosure information regarding the investment in the State Treasurer's General Fund Investment Pool, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2008, review the State Treasurer's Investment Policy at <http://www.stonm.org/ReportsandPolicies/Policies>, and review Sections 2.60.4.1 through 2.60.4.15 of the New Mexico Administrative Code, regarding Investment of Deposits of Public Funds Depository Bank Requirements, Collateral Level Requirements, and Custodial Bank Requirements.

The State Treasurer's scope of authority for the types of investments that may be made with state funds is statutorily defined and governed by the State Treasurer's Investment Policy approved by the State Board of Finance. The State Treasurer issues separate financial statements which disclose the categories of risk in accordance with GASB Statement No. 40 and also discloses the collateral pledged to secure State Treasurer cash and investments.

Interest rate risk: 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 changes to market interest rates. The Office does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates or limits its investment choices.

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

2) Investments - continued

Credit risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The State's General Fund Investment Pool is rated AAAM by Standard & Poors. The Office also does not have an investment policy that would further limit its investment choices.

3) Capital Assets

Capital asset activity for the year ended June 30, 2008, is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated				
Computer equipment	\$ 9,774	\$ -	\$ -	\$ 9,774
Furniture	1,139	-	-	1,139
Total capital assets being depreciated	<u>10,913</u>	<u>-</u>	<u>-</u>	<u>10,913</u>
Less accumulated depreciation for				
Computer equipment	9,774	-	-	9,774
Furniture	1,139	-	-	1,139
Total accumulated depreciation	<u>10,913</u>	<u>-</u>	<u>-</u>	<u>10,913</u>
Capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

4) Compensated Absences

Changes in long-term liabilities for the year ended June 30, 2008, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
Governmental activities					
Compensated absences	\$ 9,534	\$ 14,346	\$ 11,637	\$ 12,243	\$ 10,407
Total long-term liabilities	<u>\$ 9,534</u>	<u>\$ 14,346</u>	<u>\$ 11,637</u>	<u>\$ 12,243</u>	<u>\$ 10,407</u>

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

5) Due to State General Fund

Due to the State General Fund consists of a reversion in the amount of \$16,451 for the year ended June 30, 2008.

6) Due to Other State Agencies

Due to other state agencies in the amount of \$5,300 represents deposits that were incorrectly recorded to the Office and that should have been recorded to the New Mexico Environment Department. The Office's general and trustee funds had \$200 and \$5,100, improperly recorded during the year.

7) Operating Leases

The Office leases office space under an operating lease. The lease is a five year lease ending July 31, 2009, with an option to renew for an additional five years. Monthly payments are \$1,675 with a 1.5% increase each year. Operating leases do not give rise to property rights or lease obligation, and therefore, the results of the lease agreement are not reflected in the assets or liabilities of the Office. The lease may be canceled by the Office at the end of each fiscal year. The Office is scheduled to make lease payments totaling \$20,700 in fiscal year 2009, the final year under the lease. Lease expense was \$20,410 and \$19,800 for the fiscal years ending June 30, 2008 and 2007, respectively.

8) Pension Plan – Public Employees Retirement Association

Plan Description. Substantially all of the Office's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (PERA) (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, New Mexico 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

8) Pension Plan – Public Employees Retirement Association - continued

Funding Policy. Plan members are required to contribute 7.42% of their gross salary. The Office is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Office are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature.

The Office's contributions to PERA for the fiscal years ending June 30, 2008, 2007 and 2006 were \$48,923, \$40,669 and \$38,873, respectively, which equal the amount of the required contributions for each fiscal year.

9) **Post-Employment Benefits – State Retiree Health Care Plan**

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

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in whichever the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; (2) retirees defined by the Act who retired prior to July 1, 1990; (3) former legislators who served at least two years; and (4) former governing authority members who served at least four years.

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

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

9) Post-Employment Benefits – State Retiree Health Care Plan - continued

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 premiums 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.

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

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 contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of each 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 Office's contributions to the RHCA for the years ended June 30, 2008, 2007, and 2006 were \$2,506, \$2,941 and \$3,046, respectively, which equal the required contributions for each year.

State of New Mexico
Office of the Natural Resources Trustee
Notes to Financial Statements
June 30, 2008

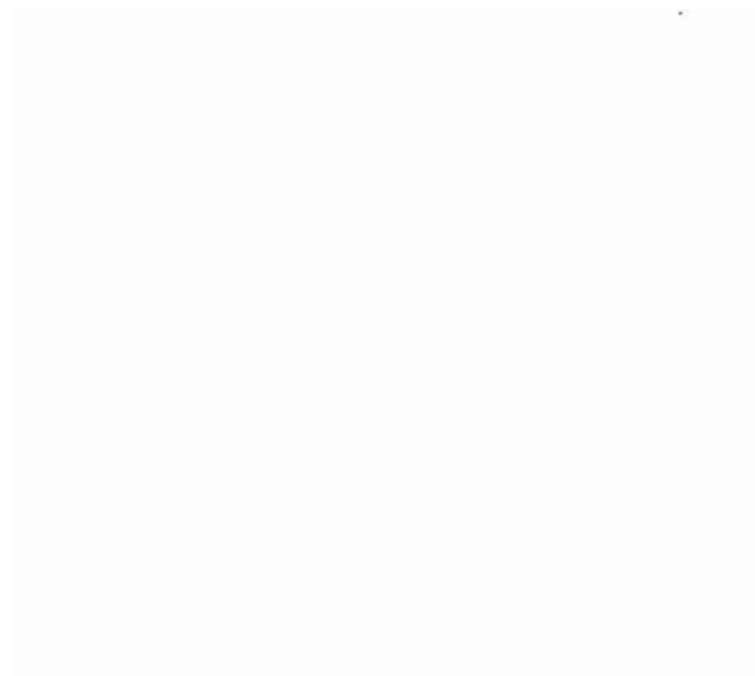
11) Risk Management

The Office is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Section 15-7-2 NMSA 1978 requires the General Services Department, Risk Management Division (RMD) to be responsible for the acquisition and administration of all insurance purchased by the state. The office carries insurance with the RMD. Coverage is provided for the following: general liability, property and civil rights.

The period of coverage is July 1, 2007 through June 30, 2008. There are no pending or known threatened legal proceedings involving material matters to which the Office is a party.

12) Prior Period Adjustment

Previously reported net assets of the trustee fund at June 30, 2007, of \$905,983 were adjusted for the effect of errors in recording cost recovery funds received for assessment services provided by the Office and or its contractors as deferred revenue. The effect of the prior period adjustment was to decrease previously reported deferred revenue by \$146,269. As of June 30, 2007, net assets of the trustee fund were restated to \$1,052,252.



Required Supplementary Information

State of New Mexico
Office of the Natural Resources Trustee
Schedule of Cash and Investments
June 30, 2008

	<u>SHARE Fund Number</u>	<u>Financial Statement Balance</u>
General fund investments in the State		
Treasurer General Fund Investment Pool	49300	\$ 41,135
General fund petty cash	49300	100
Trustee fund investments in the State		
Treasurer General Fund Investment Pool	90000	<u>7,599,551</u>
Total investments in the State Treasurer General Fund Investment Pool		<u>\$ 7,640,786</u>

State of New Mexico
Office of the Natural Resources Trustee
Interagency Transfers
June 30, 2008

		SHARE	Transfers	
		Fund	In	Out
General Fund				
(1)	Department of Finance and Administration	49300	\$ -	\$ 400,500
(2)	Department of Finance and Administration	49300	-	17,000
	Total Transfers		<u>\$ -</u>	<u>\$ 417,500</u>

(1) General appropriation act of 2007

(2) Fiscal year 2007 compensation and general appropriation

State of New Mexico
Office of the Natural Resources Trustee
Schedule of Joint Powers Agreements
June 30, 2008

Participants

The Cebolleta Land Grant and the Office of the Natural Resources Trustee

Party Responsible for Operations

Cebolleta Land Grant

Description

Implementation of several restoration projects for the purpose of repairing, maintaining or enhancing the waste water treatment facilities serving three communities within the Cebolleta Land Grant (Seboyeta, Bibo and Moquino).

Beginning and Ending Dates

June 2, 2007 to December 31, 2007

Estimated Project Amount

\$29,800 – Total to be funded by the Office of the Natural Resources Trustee.

Amount Contributed During Fiscal Year

None

Audit Responsibility

Cebolleta Land Grant

Fiscal Agent

Cebolleta Land Grant

Name of Government Agency Recording Revenues and Expenditures

Cebolleta Land Grant

State of New Mexico
Office of the Natural Resources Trustee
Schedule of Joint Powers Agreements - continued
June 30, 2008

Participants

The Mid-Region Council of Governments and the Office of the Natural Resources Trustee.

Party Responsible for Operations

The Mid-Region Council of Governments

Description

Implementation of invasive species removal in the Isleta Pueblo Bosque.

Beginning and Ending Dates

April 8, 2008 through December 31, 2010

Estimated Project Amount

\$487,000 – Total to be funded by the Office of the Natural Resources Trustee.

Amount Contributed During Fiscal Year

None

Audit Responsibility

Mid-Region Council of Governments

Fiscal Agent

Mid-Region Council of Governments

Name of Government Agency Recording Revenues and Expenditures

Mid-Region Council of Governments

State of New Mexico
Office of the Natural Resources Trustee
Schedule of Joint Powers Agreements - continued
June 30, 2008

Participants

Central Curry Soil and Water Conservation District and the Office of the Natural Resources Trustee.

Party Responsible for Operations

Central Curry Soil and Water Conservation District.

Description

Restoration and protection of playas and their habitats within Curry County through long-term restricted use agreements with private landowners.

Beginning and Ending Dates

May 21, 2007 to May 20, 2011

Estimated Project Amount

\$362,016 – Total to be funded by the Office of the Natural Resources Trustee.

Amount Contributed During Fiscal Year

\$92,330

Audit Responsibility

Central Curry Soil and Water Conservation District

Fiscal Agent

Central Curry Soil and Water Conservation District

Name of Government Agency Recording Revenues and Expenditures

Central Curry Soil and Water Conservation District

State of New Mexico
Office of the Natural Resources Trustee
Schedule of Joint Powers Agreements - continued
June 30, 2008

Participants

Bernalillo County and the Office of the Natural Resources Trustee.

Party Responsible for Operations

Bernalillo County

Description

South Valley household sewer and water connections.

Beginning and Ending Dates

March 11, 2008 through June 30, 2009

Estimated Project Amount

\$200,000 – Total to be funded by the Office of the Natural Resources Trustee.

Amount Contributed During Fiscal Year

\$6,000

Audit Responsibility

Bernalillo County

Fiscal Agent

Bernalillo County

Name of Government Agency Recording Revenues and Expenditures

Bernalillo County

State of New Mexico
Office of the Natural Resources Trustee
Schedule of Joint Powers Agreements - continued
June 30, 2008

Participants

City of Albuquerque, Open Space Division and the Office of the Natural Resources Trustee.

Party Responsible for Operations

City of Albuquerque, Open Space Division

Description

Implementation of bosque re-vegetation activities in the Rio Grande Valley State Park.

Beginning and Ending Dates

May 3, 2007 through December 31, 2009

Estimated Project Amount

\$236,000 – Total to be funded by the Office of the Natural Resources Trustee.

Amount Contributed During Fiscal Year

\$130,000

Audit Responsibility

City of Albuquerque, Open Space Division

Fiscal Agent

City of Albuquerque, Open Space Division

Name of Government Agency Recording Revenues and Expenditures

City of Albuquerque, Open Space Division

State of New Mexico
Office of the Natural Resources Trustee
Schedule of Joint Powers Agreements - continued
June 30, 2008

Participants

New Mexico Environment Department, Groundwater Quality Bureau and the Office of the Natural Resources Trustee.

Party Responsible for Operations

New Mexico Environment Department

Description

South Valley groundwater restoration, removal of nitrate contamination.

Beginning and Ending Dates

June 25, 2008 through June 25, 2012

Estimated Project Amount

\$4,000,000 – Total to be funded by the Office of the Natural Resources Trustee.

Amount Contributed During Fiscal Year

None

Audit Responsibility

New Mexico Environment Department

Fiscal Agent

New Mexico Environment Department

Name of Government Agency Recording Revenues and Expenditures

New Mexico Environment Department

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

Jim Baca, Trustee
Office of the Natural Resources Trustee, State of New Mexico
610 Gold Ave. SW, Suite 236
Albuquerque, New Mexico 87102
and
Hector H. Balderas
New Mexico State Auditor

We have audited the financial statements of the governmental activities, each major fund, and the respective budgetary comparisons of the State of New Mexico, Office of the Natural Resources Trustee (Office) as of and for the year ended June 30, 2008, which collectively comprise the Office's basic financial statements and have issued our report thereon dated December 10, 2008. 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 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 Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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.

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.

6729 Academy Rd. NE
Suite C
Albuquerque, NM 87109
Office 505 293 5009
Fax 505 293 3597

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Office'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 Office's financial statements that is more than inconsequential will not be prevented or detected by the Office's internal control. 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 entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 08-1 and 08-2 to be significant deficiencies 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 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 none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, paragraph 5.14 and 5.16, and Section 12-6-5 NMSA 1978, and which is described in the accompanying schedule of findings and responses as item 08-01.

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

This report is intended solely for the information and use of the management of the Office of the Natural Resources Trustee, others within the Office, the New Mexico State Auditor, the New Mexico Department of Finance and Administration and the New Mexico State Legislature, and is not intended to be and should not be used by anyone other than these specified parties.

Nick Lottis, CPA LLC

Albuquerque, New Mexico
December 10, 2008

State of New Mexico
Office of the Natural Resources Trustee
Schedule of Findings and Responses
June 30, 2008

FS 08-1 — Auditor Prepared Financial Statements

Condition: The Office's financial statements as of and for the fiscal year ended June 30, 2008 were prepared by its independent public accountant.

Criteria: State Audit Rule 2.2.2.8(J)(4) and AICPA Statement on Auditing Standard No. 112 establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements.

Effect: The Office relies on its independent public accountant for preparation of its annual financial statements submitted to the Office of the State Auditor.

Cause: The Office does not currently have an employee on staff with sufficient expertise to apply generally accepted accounting principles (GAAP) in recording the Office's financial transactions or in preparing financial statements in accordance with GAAP.

Auditors Recommendation: The Office's management should regularly assess the control deficiency and the potential impact on the Office's financial statements. At a minimum, provide regular continuing professional education to accounting staff regarding reporting.

Management's Response: The Office has staff who understand, and are knowledgeable of, generally accepted accounting principles, financial statement reports and the preparation of financial statement reports where necessary. Also, the Office will ensure that financial staff are trained and remain knowledgeable about state and federal government audit requirements and plans to develop and implement internal controls for financial statement preparation in the SHARE system.

FS 08-2 — Employee Personnel File Documentation

Condition: IRS Form I-9 was not available for our review for any of the Office's four employees.

Criteria: All employees, citizens and noncitizens, hired after November 6, 1986 and working in the United States must complete Internal Revenue Service Form I-9, Employment Eligibility Verification.

Effect: The Office's employment documentation is inadequate.

Cause: The Office has not properly maintained IRS Form I-9.

State of New Mexico
Office of the Natural Resources Trustee
Schedule of Findings and Responses – continued
June 30, 2008

FS 08-2 — Employee Personnel File Documentation – continued

Auditors Recommendation: Complete and maintain all I-9 Forms for all employees within the employees file at all times.

Management's Response: As of December 15, 2008, the Office has completed all I-9 Forms for all employees.

FS 08-3 — Reversions to the State General Fund

Condition: The June 30, 2007 audit was not issued until mid November 2008 and as a result the Office was unable to determine and transfer the reversion for the year ended June 30, 2008.

Criteria: Reverting funds must be transferred to the State General Fund in timely manner (September 30th) per SAO Rule 2.2.2.12 A (6)(b).

Effect: The Office is not in compliance with SAO Rule 2.2.2.12 A (6)(b).

Cause: The financial statement audit for June 30, 2008 was not completed timely.

Auditors Recommendation: Reconcile all accounts in a timely manner so that any General Fund Reversion amount can also be calculated in a timely manner.

Management Response: The Office has issued the June 30, 2008 financial statement audit in a timely manner and all accounts are now being reconciled and on a timely basis. Management will be able to calculate any General Fund reversions amount for fiscal year ending June 30, 2009 on a timely basis and transfer such funds by the September 30th deadline if applicable.

State of New Mexico
Office of the Natural Resources Trustee
Status of Prior Year Audit Findings
June 30, 2008

Item FS 07-1: Auditor prepared financial statements repeated as item FS 08-1.
Item FS 07-2: Late report submission. Resolved.
Item FS 07-3: Timely transfer of funds. Resolved.

State of New Mexico
Office of the Natural Resources Trustee
Exit Conference
June 30, 2008

The contents of this report were discussed at an exit conference held on December 12, 2008 with the following in attendance:

Office of the Natural Resources Trustee

Rebecca Neri Zagal, Executive Director

Elysia Martinez, Administrative Assistant

Clancy Roberts, Chief Financial Officer,
New Mexico Environment Department

Nick Loftis, CPA LLC

Armando Sanchez, CPA

We appreciate the many courtesies and assistance extended to us by the management and employees of the State of New Mexico, Office of the Natural Resources Trustee.