

State of New Mexico Office of Natural Resources Trustee

Basic Financial Statements
and
Independent Auditors' Report

June 30, 2009

State of New Mexico Office of Natural Resources Trustee

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

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**State of New Mexico
Office of 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 Natural Resources Trustee, State of New Mexico
4910 – A Alameda NE
Albuquerque, New Mexico 87113
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, 2009, 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, 2009, 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.

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Office **505 293 5009**
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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 Natural Resources Trustee, as of June 30, 2009, and the respective changes in financial position thereof and the respective budgetary comparisons for the General Fund and Trustee 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, 2009, 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 is not a required part of the basic financial statements but is 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 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 ^{MC}

Albuquerque, New Mexico
December 10, 2009

State of New Mexico
Office of Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2009

This section of the financial report presents a discussion and analysis of the State of New Mexico Office of Natural Resources Trustee (Office) financial performance during the fiscal year ended June 30, 2009. 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, 2009 and 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.

Governmental Funds:

- ◆ At June 30, 2009, the Office's governmental funds reported reserved and restricted for NRDAR program activities fund balances of \$100 and \$1,319,792, respectively. During the year ended June 30, 2009, the Office's governmental funds total fund balances increased by approximately \$33,000.

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 NRDAR program is to restore, replace or acquire the equivalent of injured, destroyed or lost natural resources.

Accomplishments in fiscal year 2009:

- ◆ Restored 1,385 acres of habitat
- ◆ Conserved 1,017 acre-feet of water through restoration

Restoration projects in progress in fiscal year 2009:

- ◆ Bosque Re-Vegetation Project, City of Albuquerque Water Trust Board
- ◆ Curry County Playa Conservation Project, Central Curry Soil and Water Conservation District

State of New Mexico
Office of Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2009

- ◆ Isleta Phreatophyte Removal Project, Mid-Region Council of Governments
- ◆ Liquid Waste Groundwater Protection Project, New Mexico Environment Department
- ◆ Mountain View Nitrate Plume Restoration Project, New Mexico Environment Department
- ◆ Rio Grande Valley State Park Re-Vegetation Project, City of Albuquerque
- ◆ South Valley Sewer & Water Connection Project, Bernalillo County
- ◆ Whitfield Re-Vegetation Project, Valencia County Soil and Water Conservation District

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 some of the information in the financial statements and provide more detail. The statements are followed by a section of required supplementary information that compares the general fund actual and budgetary expenditures.

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 Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2009

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 Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Office-Wide Financial Analysis

Net assets. The following table reflects the condensed statement of net assets for 2009, with comparative totals for 2008.

Table 1
Net Assets

	2009	2008
Assets		
Current and other assets	\$6,431,323	\$7,678,751
Capital assets, net	-	-
Total assets	6,431,323	7,678,751
Liabilities		
Current liabilities	70,355	276,693
Long-term liabilities	5,053,965	6,127,125
Total liabilities	5,124,320	6,403,818
Net assets		
Invested in capital assets	-	-
Restricted for Program activities	1,319,792	1,287,076
Unrestricted deficit	(12,789)	(12,143)
Total net assets	\$1,307,003	\$1,274,933

The Office's combined net assets increased by \$32,070 (2.5%) during the year. The increase was primarily attributable to environmental program revenues exceeding current year expenditures and earnings on investments.

State of New Mexico
Office of Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Change in Net Assets. The table below provides a summary of the change in net assets for the year ended June 30, 2009, with comparative totals for 2008.

Table 2
Change in Net Assets

	2009	2008
Expenses		
Program		
General government	\$ 415,313	\$ 403,759
NRDAR Program	<u>1,101,045</u>	<u>331,653</u>
Total expenses	<u>1,516,358</u>	<u>735,412</u>
Revenues		
Program revenues		
NRDAR Program	1,073,259	282,643
Miscellaneous revenue	<u>5,065</u>	<u>-</u>
Total program revenues	<u>1,078,324</u>	<u>282,643</u>
Deficiency before general revenues and transfers	(438,034)	(452,769)
General revenues and transfers		
State general fund appropriations	417,900	417,500
State general fund reversions	(3,233)	(16,451)
Interest income	<u>55,437</u>	<u>283,835</u>
Total general revenues and transfers	<u>470,104</u>	<u>684,884</u>
Change in net assets	32,070	232,115
Net assets, beginning of year as previously stated	1,274,933	896,549
Prior period adjustment	<u>-</u>	<u>146,269</u>
Net assets, beginning of year, restated	<u>1,274,933</u>	<u>1,042,818</u>
Net assets, end of year	<u>\$ 1,307,003</u>	<u>\$ 1,274,933</u>

The Office spent \$1,516,358, which was offset by \$1,551,661 of program revenue, State of New Mexico general fund appropriations and investment income. 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.

State of New Mexico
Office of Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2009

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 NRDAR Program restricted activities.

At June 30, 2009, the Office's governmental funds reported reserved and restricted for NRDAR Program activities fund balances of \$100 and \$1,319,792, respectively, a net increase of \$32,716 from the prior year.

Capital Assets

The Office made no investments in capital assets during the fiscal year ended June 30, 2009. All of the Offices capital assets were fully depreciated at June 30, 2009 and 2008. 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 the fiscal year ended June 30, 2009 was \$417,900. As of the end of the year the Office had not expended \$3,233 of these appropriations and has recorded a liability (reversion) in the same amount as due to the State General Fund.

During fiscal year 2008, 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.

State of New Mexico
Office of Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Request for Information

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

Office of Natural Resources Trustee
4910 – A Alameda Blvd. NE
Albuquerque, New Mexico 87113

Basic Financial Statements

State of New Mexico
Office of Natural Resources Trustee
Statement of Net Assets
June 30, 2009

	Governmental Activities
Assets	
Current assets	
Investment in State Treasurers General Fund Investment Pool	\$ 6,430,169
Due from other agencies	1,154
Total current assets	6,431,323
Noncurrent assets	
Capital assets	7,228
Less accumulated depreciation	(7,228)
Total noncurrent assets	-
Total assets	\$ 6,431,323
Liabilities	
Current liabilities	
Accounts payable	\$ 39,014
Accrued wages	6,823
Accrued payroll taxes and benefits	10,330
Due to state general fund	3,233
Compensated absences	10,955
Total current liabilities	70,355
Noncurrent liabilities	
Deferred revenue	5,052,031
Compensated absences	1,934
Total noncurrent liabilities	5,053,965
Total liabilities	\$ 5,124,320
Net assets	
Restricted for program activities	1,319,792
Unrestricted (deficit)	(12,789)
Total net assets	\$ 1,307,003

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

State of New Mexico
Office of Natural Resources Trustee
Statement of Activities
For the Year Ended June 30, 2009

	Governmental Activities
Expenses	
General government	\$ 415,313
NRDAR Program	<u>1,101,045</u>
Total expenses	<u>1,516,358</u>
Program revenue	
Miscellaneous revenue	5,065
NRDAR Program	<u>1,073,259</u>
Total program revenue	<u>1,078,324</u>
Net program expense	(438,034)
General revenues and transfers	
State general fund appropriations	417,900
Interest	55,437
Reversion to the State General Fund	<u>(3,233)</u>
Total general revenues and transfers	<u>470,104</u>
Change in net assets	32,070
Net assets, beginning of year	<u>1,274,933</u>
Net assets, end of year	<u>\$ 1,307,003</u>

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

State of New Mexico
Office of Natural Resources Trustee
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Trustee Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Investment in State general fund investment pool	\$ 22,389	\$ 6,407,780	\$ 6,430,169
Due from other funds	-	1,244	1,244
Due from other agencies	-	1,154	1,154
Total assets	<u>\$ 22,389</u>	<u>\$ 6,410,178</u>	<u>\$ 6,432,567</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 659	\$ 38,355	\$ 39,014
Accrued wages	6,823	-	6,823
Accrued payroll taxes and benefits	10,330	-	10,330
Due to other funds	1,244	-	1,244
Due to other agencies	-	-	-
Due to state general fund	3,233	-	3,233
Deferred Revenue	-	5,052,031	5,052,031
Total liabilities	<u>22,289</u>	<u>5,090,386</u>	<u>5,112,675</u>
Fund balances			
Reserved for petty cash	100	-	100
Restricted for program activities	-	1,319,792	1,319,792
Total fund balances	<u>100</u>	<u>1,319,792</u>	<u>1,319,892</u>
Total liabilities and fund balances	<u>\$ 22,389</u>	<u>\$ 6,410,178</u>	<u>\$ 6,432,567</u>

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

State of New Mexico
Office of Natural Resources Trustee
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2009

Total fund balances for governmental funds	\$ 1,319,892
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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:

Computer equipment and furniture	7,228
Accumulated depreciation	<u>(7,228)</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>(12,889)</u>
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Net assets of governmental activities	<u>\$ 1,307,003</u>
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The accompanying notes are an integral part of these financial statements.

State of New Mexico
Office of Natural Resources Trustee
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
June 30, 2009

	General Fund	Trustee Fund	Total Governmental Funds
Revenues			
Interest income	\$ -	\$ 55,437	\$ 55,437
NRDAR Program		1,073,259	1,073,259
Miscellaneous income	-	5,065	5,065
Total revenue	<u>-</u>	<u>1,133,761</u>	<u>1,133,761</u>
Expenditures			
General government	414,667	-	414,667
NRDAR Program	-	1,101,045	1,101,045
Total expenditures	<u>414,667</u>	<u>1,101,045</u>	<u>1,515,712</u>
Revenues over (under) expenditures before other financing sources (uses)	(414,667)	32,716	(381,951)
Other financing sources (uses)			
State general fund appropriations	417,900	-	417,900
Reversion to the State General Fund	(3,233)	-	(3,233)
Total other financing sources	<u>414,667</u>	<u>-</u>	<u>414,667</u>
Net change in fund balances	-	32,716	32,716
Fund balances, beginning of year	100	1,287,076	1,287,176
Fund balances, end of year	<u>\$ 100</u>	<u>\$ 1,319,792</u>	<u>\$ 1,319,892</u>

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

State of New Mexico
Office of 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, 2009

Net change in fund balances - total governmental funds \$ 32,716

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.

(646)

Change in net assets of governmental activities

\$ 32,070

Exhibit 7

State of New Mexico
Office of Natural Resources Trustee
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note 2)	Final Budget Favorable (Unfavorable)
Revenues				
Interest income	\$ -	\$ -	\$ -	\$ -
NRDAR Program	-	-	-	-
Miscellaneous income	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
General government	428,600	417,900	414,667	3,233
NRDAR Program	-	-	-	-
Total expenditures	<u>428,600</u>	<u>417,900</u>	<u>414,667</u>	<u>3,233</u>
Revenues over/(under) expenditures before other financing sources/(uses)	(428,600)	(417,900)	(414,667)	3,233
Other financing sources (uses):				
Designated cash	-	-	-	-
State general fund appropriations	428,600	417,900	417,900	-
State general fund reversions	-	-	(3,233)	(3,233)
Total other financing sources (uses)	<u>428,600</u>	<u>417,900</u>	<u>414,667</u>	<u>(3,233)</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year,	-	-	100	100
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.

State of New Mexico
Office of Natural Resources Trustee
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Trustee Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note 2)	Final Budget Favorable (Unfavorable)
Revenues				
Interest income	\$ -	\$ -	\$ 55,437	\$ 55,437
NRDAR Program	-	-	1,073,259	1,073,259
Miscellaneous income	-	-	5,065	5,065
Total revenues	<u>-</u>	<u>-</u>	<u>1,133,761</u>	<u>1,133,761</u>
Expenditures				
General government	-	-	-	-
NRDAR Program	1,774,000	1,774,000	1,101,045	672,955
Total expenditures	<u>1,774,000</u>	<u>1,774,000</u>	<u>1,101,045</u>	<u>672,955</u>
Revenues over/(under) expenditures before other financing sources/(uses)	(1,774,000)	(1,774,000)	32,716	460,806
Other financing sources (uses):				
Designated cash	1,774,000	1,774,000	-	-
State general fund appropriations	-	-	-	-
State general fund reversions	-	-	-	-
Total other financing sources (uses)	<u>1,774,000</u>	<u>1,774,000</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	32,716	460,806
Fund balance, beginning of year,	<u>-</u>	<u>-</u>	<u>1,287,076</u>	<u>1,287,076</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,319,792</u>	<u>\$ 1,747,882</u>

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

State of New Mexico
Office of Natural Resources Trustee
Notes to Financial Statements
June 30, 2009

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 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 Natural Resources Trustee
Notes to Financial Statements
June 30, 2009

1) Summary of Significant Accounting Policies – continued

The Laws of 1993, Chapter 292, and the Natural Resources Trustee Act created the Office of 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) which provides the Office with accounting, human resource and other assistance. The administrative head of the Office is the Trustee.

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 office-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. 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 funded primarily from appropriations by the State of New Mexico General Fund, cost recovery, restoration settlements and interest income.

State of New Mexico
Office of Natural Resources Trustee
Notes to Financial Statements
June 30, 2009

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, and interest income) 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 and activities are allocated to programs and functions they 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 compensate the State for expenses to investigate, assess and collect damages and enforce the state's rights and are available for appropriation to carry out the provisions of the Natural Resources Trustee Act.

State of New Mexico
Office of Natural Resources Trustee
Notes to Financial Statements
June 30, 2009

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 to the State General Fund 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 Natural Resources Trustee
Notes to Financial Statements
June 30, 2009

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 Natural Resources Trustee
Notes to Financial Statements
June 30, 2009

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 hours).

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 on 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 revenue. Funds earned but not yet received are reported as due from other governments.

State of New Mexico
Office of Natural Resources Trustee
Notes to Financial Statements
June 30, 2009

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 \$5,052,031 consists of settlements received for damages to natural resources. The money remains 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 Natural Resources Trustee
Notes to Financial Statements
June 30, 2009

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 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 Natural Resources Trustee
Notes to Financial Statements
June 30, 2009

2) Investments

Cash and investments in the State Treasurer's General Fund Investment Pool (GFIP) consist 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	\$ 6,407,780	\$ 6,407,780
SHARE Fund 49300 investments in the State Treasurer General Fund Investment Pool	22,389	22,389
Total investments in the State Treasurer General Fund Investment Pool	<u>\$ 6,430,169</u>	<u>\$ 6,430,169</u>

All investments are on deposit with the State Treasurer in the State General Fund Investment Pool, except \$100 of petty cash that is maintained by the Office. 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 not immediately needed for the operation of state government.

For additional disclosure information regarding the investment in the State Treasurer's GFIP, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2009, 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.

State of New Mexico
Office of Natural Resources Trustee
Notes to Financial Statements
June 30, 2009

3) Capital Assets

Capital asset activity for the year ended June 30, 2009, is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated				
Computer equipment	\$ 9,774	\$ -	\$ 3,685	\$ 6,089
Furniture	1,139	-	-	1,139
Total capital assets being depreciated	<u>10,913</u>	<u>-</u>	<u>3,685</u>	<u>7,228</u>
Less accumulated depreciation for				
Computer equipment	9,774	-	3,685	6,089
Furniture	1,139	-	-	1,139
Total accumulated depreciation	<u>10,913</u>	<u>-</u>	<u>3,685</u>	<u>7,228</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, 2009, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
Governmental activities					
Compensated absences	\$ 12,243	\$ 14,873	\$ 14,227	\$ 12,889	\$ 10,955
Total long-term liabilities	<u>\$ 12,243</u>	<u>\$ 14,873</u>	<u>\$ 14,227</u>	<u>\$ 12,889</u>	<u>\$ 10,955</u>

State of New Mexico
Office of Natural Resources Trustee
Notes to Financial Statements
June 30, 2009

5) Due to State General Fund

Due to the State General Fund consists of a reversion in the amount of \$3,233 for the year ended June 30, 2009.

6) Operating Leases

The Office leases office space under an operating lease. The lease is a five year lease ending August 31, 2014. Monthly payments are \$2,532 with a 1% 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. Lease expense was \$20,410 for the year ended June 30, 2009. Future minimum operating lease commitments are as follows:

Year ending June 30,	
2010	\$ 30,722
2011	31,070
2012	31,427
2013	31,796
Total	\$ 125,015

7) 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 Natural Resources Trustee
Notes to Financial Statements
June 30, 2009

7) 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, 2009, 2008 and 2007 were \$52,054, \$48,923 and \$40,669, respectively, which equal the amount of the required contributions for each fiscal year.

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

State of New Mexico
Office of Natural Resources Trustee
Notes to Financial Statements
June 30, 2009

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

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

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits.

Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance 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.

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 January 1, 1998 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, 2009, 2008, and 2007 were \$2,430, \$2,506 and \$2,941, respectively, which equal the required contributions for each year.

State of New Mexico
Office of Natural Resources Trustee
Notes to Financial Statements
June 30, 2009

9) 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, 2008 through June 30, 2009. There are no pending or known threatened legal proceedings involving material matters to which the Office is a party.

10) Due to and From Other Funds

Internal balances of \$1,244 represent a deposit recorded in the General Fund that should have been recorded in the Trustee Fund.

11) Due from Other State Agencies

Due from other state agencies in the amount of \$1,154 represents amounts owed to the Trustee Fund from the State Treasurer's General Fund Investment Pool for interest earned during the month of June 30, 2009 and paid subsequent to year-end.

12) Subsequent Event

The State of New Mexico, through the Office of Natural Resources Trustee and the Attorney General, filed claims against a corporation for natural resource damages due to alleged releases of hazardous substances at five sites located in New Mexico that are currently or previously owned by said corporation. The parties have since entered into a settlement agreement that provides the State with a total of \$950,000 in compensation for all claims. Funds totaling \$1,117,849 which include approved post-petition interest were received by the State on December 9, 2009 in payment of the settled natural resource damage claims.

Required Supplementary Information

State of New Mexico
Office of Natural Resources Trustee
Schedule of Cash and Investments
June 30, 2009

	<u>SHARE Fund Number</u>	<u>Financial Statement Balance</u>
General fund investments in the State Treasurer General Fund Investment Pool	49300	\$ 22,289
General fund petty cash	49300	100
Trustee fund investments in the State Treasurer General Fund Investment Pool	90000	<u>6,407,780</u>
Total investments in the State Treasurer General Fund Investment Pool		<u>\$ 6,430,169</u>

State of New Mexico
Office of Natural Resources Trustee
Interagency Transfers
June 30, 2009

		SHARE	Transfers	
		Fund	In	Out
General Fund				
(1)	Department of Finance and Administration	49300	\$ 406,800	\$ -
(2)	Department of Finance and Administration	49300	11,100	-
	Total Transfers		<u>\$ 417,900</u>	<u>\$ -</u>

- (1) General appropriation act of 2008
- (2) Fiscal year 2008 compensation and general appropriation

State of New Mexico
Office of Natural Resources Trustee
Schedule of Joint Powers Agreements
June 30, 2010

Participants:

Bernalillo County and the Office of Natural Resources Trustee

Party Responsible for Operations:

Bernalillo County

Description:

To fund the connection of residential homes to a municipal sewer and water system in Albuquerque's south valley.

Beginning and Ending Dates:

March 11, 2008 to December 31, 2009

Estimated Project Amount:

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

Amount Contributed During Fiscal Year:

\$18,769

Audit Responsibility:

Bernalillo County

Fiscal Agent:

Bernalillo County

Name of Government Agency Recording Revenues and Expenditures:

Bernalillo County

State of New Mexico
Office of Natural Resources Trustee
Schedule of Joint Powers Agreements - continued
June 30, 2009

Participants:

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

Party Responsible for Operations:

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 Natural Resources Trustee.

Amount Contributed During Fiscal Year:

\$375,356

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 Natural Resources Trustee
Schedule of Joint Powers Agreements - continued
June 30, 2009

Participants:

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

Amount Contributed During Fiscal Year:

\$31,310

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 Natural Resources Trustee
Schedule of Joint Powers Agreements - continued
June 30, 2009

Participants:

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

Party Responsible for Operations:

City of Albuquerque

Description:

Protection of the Rio Grande watershed through re-vegetation of 100 acres in the Rio Grande Valley State Park.

Beginning and Ending Dates:

May 3, 2007 through December 31, 2009

Estimated Project Amount:

\$528,800 – Total to be funded by the Office of Natural Resources Trustee.

Amount Contributed During Fiscal Year:

\$105,870

Audit Responsibility:

City of Albuquerque

Fiscal Agent:

City of Albuquerque

Name of Government Agency Recording Revenues and Expenditures:

City of Albuquerque

State of New Mexico
Office of Natural Resources Trustee
Schedule of Joint Powers Agreements - continued
June 30, 2009

Participants:

New Mexico Environment Department and the Office of 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, 2007 through June 30, 2012

Estimated Project Amount:

\$747,765 – Total to be funded by the Office of Natural Resources Trustee.

Amount Contributed During Fiscal Year:

\$394,125

Audit Responsibility:

New Mexico Environment Department

Fiscal Agent:

New Mexico Environment Department

Name of Government Agency Recording Revenues and Expenditures:

New Mexico Environment Department

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 Natural Resources Trustee, State of New Mexico
4910 – A Alameda NE
Albuquerque, New Mexico 87113
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 Natural Resources Trustee (Office) as of and for the year ended June 30, 2009, which collectively comprise the Office's basic financial statements and have issued our report thereon dated December 10, 2009. 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.

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 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.

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Suite C
Albuquerque, NM 87109
Office **505 293 5009**
Fax **505 293 3597**

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 no 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.

This report is intended solely for the information and use of the management of the Office of 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 Loftis, CPA ^{UC}

Albuquerque, New Mexico
December 10, 2009

State of New Mexico
Office of Natural Resources Trustee
Status of Prior Year Audit Findings
June 30, 2009

Item FS 08-1: Auditor prepared financial statements. Resolved.
Item FS 08-2: Employee Personnel File Documentation. Resolved.
Item FS 08-3: Reversions to the State General Fund. Resolved.

State of New Mexico
Office of Natural Resources Trustee
Exit Conference
June 30, 2009

The financial statements presented in this report were prepared by the auditors, Nick Loftis, CPA LLC.

The content of this report was discussed at an exit conference held on December 10, 2009 with the following in attendance:

Office of Natural Resources Trustee

Jim Baca, Trustee

Rebecca Neri Zagal, Executive Director

Elysia Martinez, Administrative Assistant

Clancy Roberts, Chief Financial Officer,
New Mexico Environment Department

Lorelei Blea, Accountant/Auditor
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 Natural Resources Trustee and the New Mexico Environment Department.