



State of New Mexico Office of Natural Resources Trustee

Basic Financial Statements
and
Independent Auditors' Report

June 30, 2011

State of New Mexico Office of Natural Resources Trustee

Table of Contents

	Page
Official Roster	1
Financial Section	
Independent Auditors' Report	2 - 4
Management's Discussion and Analysis	5 - 11
Government-Wide Financial Statements	
<u>Exhibit 1</u> – Statement of Net Assets	12
<u>Exhibit 2</u> – Statement of Activities	13
Fund Financial Statements	
<u>Exhibit 3</u> – Balance Sheet – Governmental Funds	14
<u>Exhibit 4</u> – Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds	15
<u>Exhibit 5</u> – Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	16
<u>Exhibit 6</u> – Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	17
<u>Exhibit 7</u> – Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual (Budgetary Basis) – General Fund	18
<u>Exhibit 8</u> – Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual (Budgetary Basis) – Trustee Fund	19

State of New Mexico Office of Natural Resources Trustee

Table of Contents – continued

	Page
Notes to Financial Statements	20 - 33
Supplementary Information	
<u>Schedule 1</u> – Schedule of Cash and Investments	34
<u>Schedule 2</u> – Interagency Transfers	35
<u>Schedule 3</u> – Joint Powers Agreements	36 – 40
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>	41 - 42
Status of Prior Year Audit Findings	43
Exit Conference	44

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

Official Roster

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



Independent Auditors' Report

Dave Martin, 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 (Office), as of and for the year ended June 30, 2011, 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 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, 2011, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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, 2011, 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 12, 2011, 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 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.

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

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's financial statements as a whole. 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Loftis Group ^{LLC}

December 12, 2011

State of New Mexico
Office of Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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, 2011. 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, 2011 and 2010, assets of the Office exceeded its liabilities by approximately \$19.6 million and \$6.8 million (net assets), most of which was restricted for Natural Resource Damage Assessment and Restoration Program (NRDAR Program) activities.

Governmental Funds:

- ◆ At June 30, 2011, the Office's governmental funds reported fund balance restricted for planning and implementing restoration projects of approximately \$19 million and fund balance committed to assessment costs of approximately \$700,000. During the year ended June 30, 2011, total fund balances increased by approximately \$12.8 million.

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 Natural Resource Damage Assessment and Restoration (NRDAR) program is to restore, replace or acquire the equivalent of injured, destroyed or lost natural resources.

Accomplishments in fiscal year 2011:

- ◆ Restored 1,036 acres of habitat
- ◆ Conserved 1,235 acre-feet of water through restoration

Restoration projects in progress in fiscal year 2011:

- ◆ Blackhawk Restoration Project
- ◆ Bosque Re-vegetation Project, City of Albuquerque and the Water Trust Board

State of New Mexico
Office of Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2011

- ◆ Curry County Playa Conservation Project, Central Curry Soil and Water Conservation District
- ◆ 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
- ◆ 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.

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 natural resource 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, 2011

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, which focus on how money flows into and out of those funds and the balances left at year-end that are nonspendable, restricted, committed, assigned, or unassigned. These classifications of fund balance show the nature and extent of constraints placed on the Office's fund balances by law, creditors, State legislators, and the Office's annually adopted budget. Unassigned fund balance is available for spending for any purpose. 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. The governmental fund statements provide a detailed *short-term* view of the Office's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Office's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation after each fund financial statement.

State of New Mexico
Office of Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Office-Wide Financial Analysis

Net assets. The following table reflects the condensed statement of net assets for 2011, with comparative totals for 2010.

Table 1
Net Assets

	<u>2011</u>	<u>2010</u>
Assets		
Current assets	<u>\$ 19,724,085</u>	<u>\$ 6,980,353</u>
Total assets	<u>19,724,085</u>	<u>6,980,353</u>
Liabilities		
Current liabilities	107,628	147,563
Long-term liabilities	<u>1,234</u>	<u>1,476</u>
Total liabilities	<u>108,862</u>	<u>149,039</u>
Net assets		
Restricted for Program activities	18,953,147	6,808,991
Unrestricted (deficit)	<u>662,076</u>	<u>22,323</u>
Total net assets	<u>\$ 19,615,223</u>	<u>\$ 6,831,314</u>

The Office's net assets increased by approximately \$12.8 million during the year. This increase was primarily attributable to the Office receiving a settlement of approximately \$13 million during the year.

State of New Mexico
Office of Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Change in Net Assets. The table below provides a summary of the change in net assets for the year ended June 30, 2011, with comparative totals for 2010.

Table 2
Change in Net Assets

	2011	2010
Expenses		
Program		
General government	\$ 288,766	\$ 348,181
NRDAR Program	<u>242,233</u>	<u>557,862</u>
Total expenses	<u>530,999</u>	<u>906,043</u>
Revenues		
Program revenues		
NRDAR Program	<u>13,008,319</u>	<u>1,167,417</u>
Total program revenues	<u>13,008,319</u>	<u>1,167,417</u>
Excess (deficiency) before general revenues and transfers	12,477,320	261,374
General revenues and transfers		
State general fund appropriations	293,600	422,700
Transfers to State general fund	-	(150,000)
State general fund reversions	(3,218)	(71,471)
Interest income	<u>16,207</u>	<u>9,677</u>
Total general revenues and transfers	<u>306,589</u>	<u>210,906</u>
Change in net assets	12,783,909	472,280
Net assets, beginning of year	<u>6,831,314</u>	<u>6,359,034</u>
Net assets, end of year	<u>\$ 19,615,223</u>	<u>\$ 6,831,314</u>

The Office spent approximately \$530,000 in general government and program expenses, which was offset by approximately \$12.8 million of settlement revenue, approximately \$294,000 in State of New Mexico general fund appropriations and approximately \$16,000 in investment income. The Office transferred approximately \$3,000 to the State of New Mexico general fund for unspent general fund appropriations.

State of New Mexico
Office of Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Change in net assets-continued

The increase in net assets was primarily due to current year settlement revenue and investment income on Office fund investments in the State of New Mexico General Fund Investment Pool.

Financial Analysis of the Office's Funds

At June 30, 2011, the Office's governmental funds reported a combined fund balance of approximately \$19.6 million, a net increase of approximately \$12.8 million from the prior year. Included in this year's total change in fund balance is settlement revenue of approximately \$12.8 million which is the primary reason for the increase in combined fund balance from the prior year.

Capital Assets

The Office made no investments in capital assets during the fiscal year ended June 30, 2011. All of the Office's capital assets were fully depreciated at June 30, 2011 and 2010. Note 3 provides additional details of the Office's capital assets.

Economic Factors and Budget Information

The Office's general fund depends on appropriations from the State of New Mexico General Fund. Total recurring general fund revenue for the fiscal year ended June 30, 2011 was approximately \$294,000. As of the end of the year the Office had not expended approximately \$3,000 of these appropriations and this amount has been recorded as a liability in the Office's general fund as this liability was paid back to the State's general fund subsequent to year-end.

State of New Mexico
Office of Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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 the Office at the following address:

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, 2011

	Governmental Activities
Assets	
Current assets	
Investment in State Treasurer's General Fund Investment Pool	\$ 19,722,336
Due from other agencies	1,749
Total current assets	19,724,085
Noncurrent assets	
Capital assets	4,125
Less accumulated depreciation	(4,125)
Total noncurrent assets	-
Total assets	\$ 19,724,085
Liabilities	
Current liabilities	
Accounts payable	\$ 89,475
Accrued wages	5,662
Accrued payroll taxes and benefits	2,282
Due to state general fund	3,218
Compensated absences	6,991
Total current liabilities	107,628
Noncurrent liabilities	
Compensated absences	1,234
Total noncurrent liabilities	1,234
Total liabilities	\$ 108,862
Net assets	
Restricted for program activities	18,953,147
Unrestricted (deficit)	662,076
Total net assets	\$ 19,615,223

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, 2011

	<u>Governmental Activities</u>
Expenses	
General government	\$ 288,766
NRDAR Program	<u>242,233</u>
Total expenses	<u>530,999</u>
Program revenue	
NRDAR Program	<u>13,008,319</u>
Total program revenue	<u>13,008,319</u>
Net program revenue	12,477,320
General revenues and transfers	
State general fund appropriations	293,600
Interest	16,207
Reversion to the State general fund	<u>(3,218)</u>
Total general revenues and transfers	<u>306,589</u>
Change in net assets	12,783,909
Net assets, beginning of year	<u>6,831,314</u>
Net assets, end of year	<u>\$19,615,223</u>

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

State of New Mexico
Office of Natural Resources Trustee
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Trustee Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Investment in State general fund investment pool	\$ 14,472	\$19,707,864	\$19,722,336
Due from other agencies	-	1,749	1,749
Total assets	<u>\$ 14,472</u>	<u>\$19,709,613</u>	<u>\$19,724,085</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 3,147	\$ 86,328	\$ 89,475
Accrued wages	5,662	-	5,662
Accrued payroll taxes and benefits	2,282	-	2,282
Due to state general fund	3,218	-	3,218
Total liabilities	<u>14,309</u>	<u>86,328</u>	<u>100,637</u>
Fund balances			
Restricted for planning and implementing restoration projects	-	18,953,147	18,953,147
Committed to assessment costs	163	670,138	670,301
Total fund balances	<u>163</u>	<u>19,623,285</u>	<u>19,623,448</u>
Total liabilities and fund balances	<u>\$ 14,472</u>	<u>\$19,709,613</u>	<u>\$19,724,085</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, 2011

Total fund balances for governmental funds	\$ 19,623,448
---	----------------------

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	4,125
Accumulated depreciation	<u>(4,125)</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>(8,225)</u>
----------------------	----------------

Net assets of governmental activities	<u><u>\$ 19,615,223</u></u>
--	------------------------------------

State of New Mexico
Office of Natural Resources Trustee
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Trustee Fund	Total Governmental Funds
Revenues			
Interest income	\$ 63	\$ 16,144	\$ 16,207
NRDAR Program	-	13,008,319	13,008,319
Total revenue	<u>63</u>	<u>13,024,463</u>	<u>13,024,526</u>
Expenditures			
General government	290,382	-	290,382
NRDAR Program	-	242,233	242,233
Total expenditures	<u>290,382</u>	<u>242,233</u>	<u>532,615</u>
Excess (deficiency) of revenues over expenditures	(290,319)	12,782,230	12,491,911
Other financing sources (uses)			
State general fund appropriations	293,600	-	293,600
Reversion to the State general fund	(3,218)	-	(3,218)
Total other financing sources	<u>290,382</u>	<u>-</u>	<u>290,382</u>
Net change in fund balances	63	12,782,230	12,782,293
Fund balance, beginning of year	100	6,841,055	6,841,155
Fund balances, end of year	<u>\$ 163</u>	<u>\$19,623,285</u>	<u>\$ 19,623,448</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, 2011

Net change in fund balances - total governmental funds	\$ 12,782,293
---	----------------------

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

The change in the liability for compensated absences is not reported in the funds.

	<u>1,616</u>
--	--------------

Change in net assets of governmental activities	<u><u>\$ 12,783,909</u></u>
--	------------------------------------

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, 2011

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note 1)	Final Budget Favorable (Unfavorable)
Revenues				
Interest income	\$ -	\$ -	\$ 63	\$ (63)
NRDAR Program	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>63</u>	<u>(63)</u>
Expenditures				
General government	<u>303,400</u>	<u>293,600</u>	<u>290,382</u>	<u>3,218</u>
Total expenditures	<u>303,400</u>	<u>293,600</u>	<u>290,382</u>	<u>3,218</u>
Revenues over/(under) expenditures before other financing sources/(uses)	(303,400)	(293,600)	(290,319)	3,218
Other financing sources (uses):				
State general fund appropriations	303,400	293,600	293,600	-
State general fund reversions	-	-	(3,218)	(3,218)
Total other financing sources (uses)	<u>303,400</u>	<u>293,600</u>	<u>290,382</u>	<u>(3,218)</u>
Net change in fund balance	-	-	63	-
Fund balance, beginning of year	-	-	100	100
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 163</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, 2011

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note 1)	Final Budget Favorable (Unfavorable)
Revenues				
Interest income	\$ -	\$ -	\$ 16,144	\$ 16,144
NRDAR Program	<u>1,800,000</u>	<u>1,800,000</u>	<u>13,008,319</u>	<u>13,008,319</u>
Total revenues	<u>1,800,000</u>	<u>1,800,000</u>	<u>13,024,463</u>	<u>13,024,463</u>
Expenditures				
NRDAR Program	<u>2,000,000</u>	<u>2,000,000</u>	<u>242,233</u>	<u>1,757,767</u>
Total expenditures	<u>2,000,000</u>	<u>2,000,000</u>	<u>242,233</u>	<u>1,757,767</u>
Revenues over/(under) expenditures before other financing sources/(uses)	(200,000)	(200,000)	12,782,230	11,266,696
Other financing sources (uses):				
Designated cash	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	12,782,230	11,266,696
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>6,841,055</u>	<u>1,747,882</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,623,285</u>	<u>\$ 13,014,578</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, 2011

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.

The Office's 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, 2011

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 Trustee is appointed by and serves at the pleasure 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 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, 2011

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, 2011

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, 2011

1) Summary of Significant Accounting Policies – continued

Investments

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 are 3 years for computer equipment and 5 years for furniture.

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, 2011

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. Additionally, upon retirement, those employees with over 600 hours of accumulated sick leave have the option to convert 400 hours of such leave to cash at 50% of their hourly rate.

When applicable, the compensated absence liability is presented in two parts in the government wide financial statements, a current portion and long-term portion. The current portion is the amount expected to be expended during the upcoming fiscal year.

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. The Office's capital assets were fully depreciated at June 30, 2011 and had no debt related to its capital assets; therefore, net assets invested in capital assets net of accumulated depreciation is zero at June 30, 2011.

Fund Balance

Beginning with fiscal year 2011, the Office implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purpose for which resources can be used:

- Nonspendable fund balance – Amounts that are not in spendable form (such as inventory) or are required to be maintained intact;

State of New Mexico
Office of Natural Resources Trustee
Notes to Financial Statements
June 30, 2011

1) Summary of Significant Accounting Policies – continued

- Restricted fund balance – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance – Amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance – Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

The State legislature established (and modifies or rescinds) fund balance commitments by passage of a legislative bill or statute. When expenditures are incurred for which both restricted net assets and unrestricted net assets are available, the Office first uses restricted resources then unrestricted resources.

Transfers

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

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.

State of New Mexico
Office of Natural Resources Trustee
Notes to Financial Statements
June 30, 2011

- 1) Summary of Significant Accounting Policies – continued
 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.
 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, 2011

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	\$ 19,707,864	\$ 19,707,864
SHARE Fund 49300 investments in the State Treasurer General Fund Investment Pool	14,472	14,472
Total investments in the State Treasurer General Fund Investment Pool	<u>\$ 19,722,336</u>	<u>\$ 19,722,336</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, 2011, 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, 2011

3) Capital Assets

Capital asset activity for the year ended June 30, 2011, is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated				
Computer equipment	\$ 6,089	\$ -	\$ 3,103	\$ 2,986
Furniture	1,139	-	-	1,139
Total capital assets being depreciated	<u>7,228</u>	<u>-</u>	<u>3,103</u>	<u>4,125</u>
Less accumulated depreciation for				
Computer equipment	6,089	-	3,103	2,986
Furniture	1,139	-	-	1,139
Total accumulated depreciation	<u>7,228</u>	<u>-</u>	<u>3,103</u>	<u>4,125</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, 2011, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
Governmental activities					
Compensated absences	\$ 9,841	\$ 10,447	\$ 12,063	\$ 8,225	\$ 6,991
Total long-term liabilities	<u>\$ 9,841</u>	<u>\$ 10,447</u>	<u>\$ 12,063</u>	<u>\$ 8,225</u>	<u>\$ 6,991</u>

5) Due to State General Fund

Due to the State general fund consists of \$3,218 in fiscal year 2011 unencumbered unexpended general fund appropriations.

State of New Mexico
Office of Natural Resources Trustee
Notes to Financial Statements
June 30, 2011

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 started at \$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 approximately \$31,000 for the year ended June 30, 2011. Future minimum operating lease commitments are as follows:

<u>Year ending June 30,</u>	
2012	\$ 31,427
2013	31,796
2014	32,114
2015	<u>5,406</u>
Total	<u>\$ 100,743</u>

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 (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.

Funding Policy. Plan members are required to contribute 8.92% of their gross salary. The Office is required to contribute 15.09% 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, 2011, 2010 and 2009 were \$28,236 \$38,188 and \$52,054, respectively, which equal the amount of the required contributions for each fiscal year.

State of New Mexico
Office of Natural Resources Trustee
Notes to Financial Statements
June 30, 2011

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.

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

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

State of New Mexico
Office of Natural Resources Trustee
Notes to Financial Statements
June 30, 2011

8) 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. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee’s annual salary; each participating employee was required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013 the contribution rates for the Office and its employees will increase based on the rates for employees who are not members of an enhanced retirement plan (employees of an enhanced retirement plan include police, firefighters, municipal detention officers, or Judicial Retirement Act participants) as follows:

Fiscal Year	Employer Contribution Rate	Employee Contribution Rate
FY12	1.834%	0.917%
FY13	2.000%	1.000%

Also, employers joining the program after 1/1/98 are 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, 2011, 2010 and 2009 were \$3,099, \$2,913 and \$2,506, respectively, which equal the required contributions for each year.

State of New Mexico
Office of Natural Resources Trustee
Notes to Financial Statements
June 30, 2011

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. Since 1977, various state statutes have been passed which allow RMD to insure, self-insure, or use a combination of both. Risk management expenditures for the Office are accounted for in the general fund. Any claims are processed through RMD. There are no pending or known threatened legal proceedings involving material matters to which the Office is a party.

10) Due from Other State Agencies

Due from other state agencies in the amount of \$1,749 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, 2011 and paid subsequent to year-end.

Supplementary Information

State of New Mexico
Office of Natural Resources Trustee
Schedule of Cash and Investments
June 30, 2011

	<u>SHARE Fund Number</u>	<u>Financial Statement Balance</u>
General fund investments in the State		
Treasurer General Fund Investment Pool	49300	\$ 14,372
General fund petty cash	49300	100
Trustee fund investments in the State		
Treasurer General Fund Investment Pool	90000	<u>19,707,864</u>
Total petty cash and investments in the State		
Treasurer's General Fund Investment Pool		<u>\$ 19,722,336</u>

State of New Mexico
Office of Natural Resources Trustee
Interagency Transfers
For the Year Ended June 30, 2011

		SHARE	Transfers	
		Fund	In	Out
General Fund				
(1)	Department of Finance and Administration	49300	\$ 293,600	\$ -
	Total Transfers		<u>\$ 293,600</u>	<u>\$ -</u>
(1)	General appropriation act of 2010			

State of New Mexico
Office of Natural Resources Trustee
Schedule of JPA's, MOA's and Exempt PSC's
June 30, 2011

Participants:

New Mexico Environment Department and the Office of Natural Resources Trustee

Party Responsible for Operations:

New Mexico Environment Department

Description:

Manage the Liquid Waste Groundwater Protection Project

Beginning and Ending Dates:

May 6, 2010 through May 6, 2014

Estimated Project Amount:

\$22,500 – Total to be funded by the Office of Natural Resources Trustee

Amount Contributed During Fiscal Year 2011:

\$12,600

Audit Responsibility:

New Mexico Environment Department

Fiscal Agent:

New Mexico Environment Department

Name of Government Agency Recording Revenues and Expenditures:

New Mexico Environment Department

State of New Mexico
Office of Natural Resources Trustee
Schedule of JPA's, MOA's and Exempt PSC's - continued
June 30, 2011

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 2011:

\$0

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 JPA's, MOA's and Exempt PSC's - continued
June 30, 2011

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, 2018

Estimated Project Amount:

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

Amount Contributed During Fiscal Year 2011:

\$25,491

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 JPA's, MOA's and Exempt PSC's - continued
June 30, 2011

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 October 24, 2011

Estimated Project Amount:

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

Amount Contributed During Fiscal Year 2011:

\$0 – During fiscal year 2011 the City of Albuquerque's invoices were sent to and paid directly by the Water Trust Board

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 JPA's, MOA's and Exempt PSC's - continued
June 30, 2011

Participants:

New Mexico Environment Department and the Office of Natural Resources Trustee

Party Responsible for Operations:

New Mexico Environment Department

Description:

Manage the Mountain View Nitrate Plume restoration project

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 2011:

\$0

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*

Dave Martin, 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, 2011, which collectively comprise the Office's basic financial statements and have issued our report thereon dated December 12, 2011. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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*.

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.

Loftis Group ^{WC}

Albuquerque, New Mexico
December 12, 2011

State of New Mexico
Office of Natural Resources Trustee
Status of Prior Year Audit Findings
June 30, 2011

No prior year findings.

State of New Mexico
Office of Natural Resources Trustee
Exit Conference
June 30, 2011

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

The content of this report was discussed at an exit conference held on December 12, 2011 with the following in attendance:

Office of Natural Resources Trustee

Rebecca Neri Zagal, Executive Director

Elysia Martinez, Administrative Assistant

Ed Smith, Chief Financial Officer,
New Mexico Environment Department

Cathy Atencio, Administrative Services Directors
New Mexico Environment Department

Lorelei Blea, Accountant/Auditor
New Mexico Environment Department

Loftis Group, 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.