

State of New Mexico
Office of Natural Resources Trustee

Basic Financial Statements
and
Independent Auditor's Report Thereon

June 30, 2014

**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
June 30, 2014**

<u>Name</u>	<u>Title</u>
Ryan Flynn	Trustee
Rebecca Neri Zagal	Executive Director
William Fetner	Environmental Scientist
Elysia Martinez	Business Operations Specialist

Independent Auditor's Report

Ryan Flynn, Trustee
Office of Natural Resources Trustee, State of New Mexico
5500 San Antonio Dr. N.E.
Albuquerque, New Mexico 87109
And
Hector H. Balderas
New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund and trustee fund of the State of New Mexico Office of the Natural Resources Trustee (Office), as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the Office's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the State of New Mexico Office of Natural Resources Trustee, as of June 30, 2014, and the respective changes in financial position 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-10 and 17-18 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 the sufficient evidence to express an opinion or provide any assurance.

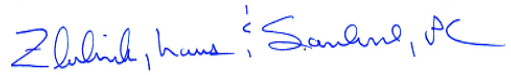
Supplemental Information

Our audit was conducted for the purpose of forming opinions on the Office's financial statements and the budgetary comparisons. The accompanying supplementary information listed as schedules in the table of contents, as required by 2.2.2.NMAC, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2014 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 in considering the Office's internal control over financial reporting and compliance.



ZLOTNICK, LAWS & SANDOVAL, PC

Santa Fe, New Mexico

December 5, 2014

State of New Mexico
Office of Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2014

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, 2014. 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 Position:

- ❖ At June 30, 2014 and 2013 assets of the Office exceeded its liabilities by approximately \$12.6 million and \$15.4 million (net assets), most of which was restricted for Natural Resource Damage Assessment and Restoration Program (NRDAR Program) activities.

Governmental Funds:

- ❖ At June 30, 2014, the Office's governmental funds reported fund balance restricted for planning and implementing restoration projects of approximately \$12.3 million and fund balance committed to assessment costs of \$292,098. During the year ended June 30, 2014, total fund balances decreased by approximately \$2.8 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 2014:

- ❖ Restored 975 acres of habitat
- ❖ Conserved 1,072 acre-feet of water through restoration

Restoration projects in progress or completed in fiscal year 2014:

- ❖ American Smelting and Refining Company (ASARCO) Blackhawk Restoration Project
- ❖ Curry County Playa Conservation Project
- ❖ Hurley Sewer Line Replacement Project
- ❖ Liquid Waste Groundwater Protection Project
- ❖ Mountain View Nitrate Plume Restoration Project
- ❖ San Vicente Creek Mill Project
- ❖ Santa Clara Wellhead Protection Project
- ❖ Silver City North/Blackhawk Sewer Line Extension Project
- ❖ River Ranch Habitat Protection Project
- ❖ Bayard Wastewater Reuse Project
- ❖ Burro Cienega Watershed Restoration Project
- ❖ Santa Clara Gravity Sewer Line Improvement Project

State of New Mexico
Office of Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Overview of Financial Statements

This annual report consists of a series of financial statements. The statement of net position 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 position 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.

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 position and changes in them. You can think of Office net position, 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 Offices' net position 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.

State of New Mexico
Office of Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2014

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 non-spendable, 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 measure 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 Offices' 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 Position and the Statement of Activities) and governmental funds in reconciliations after each fund financial statement.

**State of New Mexico
Office of Natural Resources Trustee
Management Discussion and Analysis
For the Year Ended June 30, 2014**

Office-Wide Financial Analysis

Net Position. The following table reflects the condensed statement of net position as of June 30, 2014, with comparative amounts for 2013.

	<u>FY2014</u>	<u>FY2013</u>	<u>Percent Change</u>
STATEMENT OF NET POSITION			
ASSETS			
Current and other assets	\$ 13,378,503	\$ 15,737,574	-14.99%
Capital assets, net	-	-	
Total assets	<u>13,378,503</u>	<u>15,737,574</u>	<u>-14.99%</u>
LIABILITIES			
Current liabilities	772,320	298,126	159.06%
Long term liabilities	3,219	1,768	82.07%
Total liabilities	<u>775,539</u>	<u>299,894</u>	<u>158.60%</u>
NET POSITION			
Invested in capital assets	-	-	
Restricted	12,323,602	15,221,928	-19.04%
Unrestricted	279,362	215,752	29.48%
Total net position	<u>\$ 12,602,964</u>	<u>\$ 15,437,680</u>	<u>-18.36%</u>

The Office's net position decreased by approximately \$2.8 million during the year. This decrease is primarily attributable to the Office's NRDAR program expenditures exceeding program revenue for the year. The Office expends resources that were previously set aside for restoration and assessment activities.

**State of New Mexico
Office of Natural Resources Trustee
Management Discussion and Analysis
For the Year Ended June 30, 2014**

Change in Net Position. The table below provides a summary of the change in net position for the year ended June 30, 2014, with comparative totals for 2013.

	<u>FY2014</u>	<u>FY2013</u>	<u>Percent Change</u>
STATEMENT OF ACTIVITIES			
REVENUES			
Program revenues	\$ 13,172	\$ -	100.00%
General revenue, net of transfers	95,889	(818,929)	433.04%
Total revenues	<u>109,061</u>	<u>(818,929)</u>	<u>438.41%</u>
EXPENSES			
Restoration and assessment	<u>3,093,780</u>	<u>1,422,014</u>	<u>117.56%</u>
Change in net position	(2,984,719)	(2,240,943)	33.19%
Net position, beginning of year	<u>15,437,683</u>	<u>17,678,626</u>	<u>-12.68%</u>
Net position, end of year	<u>\$ 12,452,964</u>	<u>\$ 15,437,683</u>	<u>-19.33%</u>

The significant difference in general revenue and transfers is that in 2013 the Office transferred \$940,713 to the New Mexico Environment Department to support restoration activities.

The Office spent \$3.09 million in restoration and assessment activities, which were offset by \$87,000 in State of New Mexico general fund appropriations and \$10,437 in investment income. The Office realized \$163,172 in restoration and assessment cost reimbursements that will be utilized in future restoration and assessment activities.

The decrease in net position was primarily due to the Office expending accumulated funds on restoration and assessment activities during the year.

**State of New Mexico
Office of Natural Resources Trustee
Management's Discussion and Analysis
For the Year Ended June 30, 2014**

Financial Analysis of the Office's Funds

At June 30, 2014, the Office's governmental funds reported a combined fund balance of approximately \$12.6 million, a net decrease of \$2.8 million from the prior year. The primary reason for the decrease in combined fund balance from the prior year are the NRDAR program expenditures incurred on restoration and assessment activities. The Office utilized fund balance to pay for these activities.

Capital Assets

The Office made no investments in capital assets during the fiscal year ended June 30, 2014. All of the Office's capital assets were fully depreciated at June 30, 2014 and 2013, in the prior years. Note 4 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, 2014 was \$87,000. As of the end of the year the Office had not expended \$1,848 of the appropriation and this amount has been recorded as a liability in the Office's general fund as this liability was reverted to the State's general fund subsequent to year-end.

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
5500 San Antonio Dr. N.E.
Albuquerque, NM 87109

OFFICE-WIDE FINANCIAL STATEMENTS

State of New Mexico
Office of Natural Resources Trustee
Statement of Net Position
June 30, 2014

Exhibit 1

	Governmental Activities
ASSETS	
Investment in State General Fund Investment Pool	\$ 13,377,439
Due from other state agencies	1,064
Capital assets, net (see Note 4)	-
Total assets	\$ 13,378,503
 LIABILITIES	
Accounts payable	\$ 754,647
Accrued payroll	2,001
Accrued payroll taxes and benefits	4,097
Due to State General Fund	1,890
Compensated absences (see Note 5)	
Due within one year	9,685
Due in more than one year	3,219
Total liabilities	775,539
 NET POSITION	
Net investment in capital assets	-
Restricted for program expenditures	12,323,602
Unrestricted	279,362
Total net position	\$ 12,602,964

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, 2014

Exhibit 2

	Governmental Activities
Expenses:	
General government	\$ 86,571
NRDAR Program	3,007,209
Total expenses	3,093,780
Program Revenues:	
NRDAR Program	13,172
Total program revenues	13,172
Net program expenses	(3,080,608)
General Revenue:	
General fund appropriation	87,000
Other state funds	150,300
Interest from SGFIP	10,437
Reversion to State General Fund	(1,848)
Total general revenue	245,889
Change in net position	(2,834,719)
Net position at beginning of year	15,437,683
Net position at end of year	\$ 12,602,964

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

FUND FINANCIAL STATEMENTS

State of New Mexico
Office of Natural Resources Trustee
Balance Sheet - Governmental Funds
June 30, 2014

Exhibit 3

	<u>General Fund (49300)</u>	<u>Trustee Fund (90000)</u>	<u>Total Governmental Funds</u>
ASSETS			
Investment in SGFIP	\$ 8,779	13,368,660	\$ 13,377,439
Due from other state agencies		1,064	1,064
	<u>8,779</u>	<u>13,369,724</u>	<u>13,378,503</u>
Total assets	<u>\$ 8,779</u>	<u>\$ 13,369,724</u>	<u>\$ 13,378,503</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	623	754,024	\$ 754,647
Accrued payroll	2,001	-	2,001
Accrued payroll taxes and benefits	4,097	-	4,097
Due to State General Fund	1,890	-	1,890
	<u>8,611</u>	<u>754,024</u>	<u>762,635</u>
Total liabilities	<u>8,611</u>	<u>754,024</u>	<u>762,635</u>
 Fund Balances:			
Restricted			
Planning and implementing restoration projects		12,323,602	12,323,602
Committed to assessment costs	168	292,098	292,266
	<u>168</u>	<u>12,615,700</u>	<u>12,615,868</u>
Total fund balances	<u>168</u>	<u>12,615,700</u>	<u>12,615,868</u>
Total liabilities and fund balances	<u>\$ 8,779</u>	<u>\$ 13,369,724</u>	<u>\$ 13,378,503</u>

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

State of New Mexico
Office of Natural Resources Trustee
Reconciliation of Governmental Funds Balance Sheet
To The Statement of Net Position
June 30, 2014

Exhibit 4

Total fund balances for governmental funds		\$ 12,615,868
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of the following:</p>		
Property, plant & equipment	2,671	
Accumulated depreciation	<u>(2,671)</u>	
Total capital assets		-
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of the following:</p>		
Compensated absences		<u>(12,904)</u>
Net Position of Governmental Activities		<u><u>\$ 12,602,964</u></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 Balances
Governmental Funds
For the Year Ended June 30, 2014

Exhibit 5

	<u>General Fund (493000)</u>	<u>Trustee Fund (90000)</u>	<u>Total Governmental Funds</u>
REVENUES			
Interest Income	\$ -	10,437	\$ 10,437
NRDAR Program	-	13,172	13,172
Total revenues	<u>-</u>	<u>23,609</u>	<u>23,609</u>
EXPENDITURES			
General government	85,452	-	85,452
NRDAR Program	-	3,007,209	3,007,209
Total expenditures	<u>85,452</u>	<u>3,007,209</u>	<u>3,092,661</u>
Excess (deficiency) of revenues over expenditures	(85,452)	(2,983,600)	(3,069,052)
OTHER FINANCING SOURCES (USES)			
Transfers out:			
Reversions to the State General Fund:			
FY2014	(1,848)	-	(1,848)
Transfers in:			
General fund appropriation	87,000	-	87,000
Other	300	150,000	150,300
Total other financing sources (uses)	<u>85,452</u>	<u>150,000</u>	<u>235,452</u>
Net change in fund balances	-	(2,833,600)	(2,833,600)
Fund balances at beginning of year	<u>168</u>	<u>15,449,300</u>	<u>15,449,468</u>
Fund balances at end of year	<u>\$ 168</u>	<u>\$ 12,615,700</u>	<u>\$ 12,615,868</u>

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

State of New Mexico
Office of Natural Resources Trustee
Reconciliation of the Change in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2014

Exhibit 6

Net Change in fund balances - total governmental funds	\$(2,833,600)
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Amounts reported for governmental activities in the statement of activities are different because:

Certain outlays are reported as expenditures in governmental funds. However, in the statement of activities, these costs are expensed as they are consumed or allocated over their estimated useful lives. In the current period these amounts are:

Capital outlay	-	
Depreciation expense	-	
Excess of depreciation expense over capital outlay	-	-

Expenses recognized in the Statement of Activities, not reported in governmental funds:

(Increase) decrease in compensated absences	(1,119)
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Change in Net Position of Governmental Activities	\$(2,834,719)
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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 and Expenditures-Budget and Actual
(Budgetary Basis)
General Fund
For the Year Ended June 30, 2014

Exhibit 7

	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Appropriations	87,000	87,000	87,000	-
Other financing sources	-	300	300	-
Total revenues	87,000	87,300	87,300	-
EXPENDITURES				
Administrative Services:				
Personal services & benefits	36,100	36,400	36,539	(139)
Contractual services	7,700	7,700	7,500	200
Other costs	43,200	43,200	41,413	1,787
Other financing uses	-			-
Total expenditures	\$ 87,000	\$ 87,300	\$ 85,452	\$ 1,848
Excess of revenue and other financing sources over expenditures and other uses			1,848	
Less reversion FY14			(1,848)	
Changes in fund balances per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			\$ -	

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

State of New Mexico
Office of Natural Resources Trustee
Statement of Revenues and Expenditures-Budget and Actual
(Budgetary Basis)
Trustee Fund
For the Year Ended June 30, 2014

Exhibit 8

	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Interest income	\$ -	\$ -	\$ 10,437	\$ 10,437
NRDAR Program			\$ 13,172	13,172
Other financing sources	-	-	150,000	150,000
	-	-	173,609	173,609
FUND BALANCE	2,204,900	8,204,900		
Total revenues and other sources	\$2,204,900	\$8,204,900	\$ 173,609	173,609
 EXPENDITURES				
NRDAR Program				
Personal services & benefits	220,600	220,600	220,600	-
Contractual services	1,984,300	7,984,300	2,786,609	5,197,691
Other financing uses	-	-	-	-
Total expenditures	\$2,204,900	\$8,204,900	\$ 3,007,209	\$ 5,197,691
Excess of revenues and other sources over/(under) expenditures and other uses			(2,833,600)	
Changes in fund balances per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			\$ (2,833,600)	

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

NOTES TO FINANCIAL STATEMENTS

State of New Mexico
Office of Natural Resources Trustee
Notes to the Financial Statements
June 30, 2014

1) Summary of Significant Account 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). 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.

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 provision 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.

State of New Mexico
Office of Natural Resources Trustee
Notes to the Financial Statements
June 30, 2014

1) Summary of Significant Accounting Policies – *continued*

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 position 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. Office-wide financial statements exclude information about fiduciary funds and component units that are fiduciary in nature.

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

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.

- *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.

State of New Mexico
Office of Natural Resources Trustee
Notes to the Financial Statements
June 30, 2014

1) Summary of Significant Accounting Policies – *continued*

- *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.

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.

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, or economic asset used. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from non-exchange transactions are recognized in accordance with the requirements of GASB 33. Grant revenue is recorded when all applicable eligibility or reimbursement requirements are met.

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 government 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 the Financial Statements
June 30, 2014

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 are expensed as incurred. The capitalization threshold is contained within 12-6-10 NMSA 1978. Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. The useful lives range between three and five 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.

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.

State of New Mexico
Office of Natural Resources Trustee
Notes to the Financial Statements
June 30, 2014

1) Summary of Significant Accounting Policies – *continued*

When applicable, the compensated absence liability is presented in two parts in the office-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 Position

In the office-wide financial statements net position is reported in three categories: net position invested in capital assets, net of related debt; net position restricted for program activities; and unrestricted (deficit) net position. Net position 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, 2014 and 2013 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, 2014 and 2013.

Fund Balance

Beginning with fiscal year 2011, the Office implemented GASB Statement 54's "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:

- Non-spendable fund balance – Amounts that are not in spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or 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

State of New Mexico
Office of Natural Resources Trustee
Notes to the Financial Statements
June 30, 2014

1) Summary of Significant Accounting Policies – *continued*

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 and unrestricted resources exist, the Office first uses restricted resources then unrestricted resources.

Program Revenues

Program revenues include assessment cost recovery and natural resource restoration settlements.

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 and trustee 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 1 for the following fiscal year commencing July 1. The legislature must approve the budget prior to its legal enactment.
- 2) The expenditures and encumbrances of each program may not legally exceed the budget for that program. Budgets are controlled at the program level.
- 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 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

State of New Mexico
Office of Natural Resources Trustee
Notes to the Financial Statements
June 30, 2014

1) Summary of Significant Accounting Policies - *continued*

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, encumbered 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.

2) General Fund Investment Pool Not Reconciled

For cash management and investment purposes, funds of various state agencies are deposited in the state General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2013, an independent diagnostic report revealed that Pool balances had not been reconciled at a “business unit by fund” level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled “Current State Diagnostic of Cash Control,” also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012 is available on the website of the New Mexico Department of Finance & Administration at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

State of New Mexico
Office of Natural Resources Trustee
Notes to the Financial Statements
June 30, 2014

2) General Fund Investment Pool Not Reconciled - *continued*

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation, of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliations of bank to book balances at the State and Business Unit level on a post-implementation basis, however, it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

The Management of the Department of Finance and Administration in FY 2012 recorded a loss contingency of \$101.7 million in the General fund based on its estimate of the effect of issues related to the reconciliation of the Pool, that estimate is still current. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

The Office has established and implemented internal control processes that reconcile internal cash balance records with the balance as reported by SHARE on a monthly basis. Management believes its general fund investment pool balances as reported by SHARE are materially correct at June 30, 2014 and 2013, respectively.

3) Interest in the General Fund Investment Pool

State law (Section 8-6-3 NMSA 1978) requires the Office's cash to be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Office consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

At June 30, 2014 the Office had the following invested in the General Fund Investment Pool:

General Fund Investment Pool: \$13,377,439.

State of New Mexico
Office of Natural Resources Trustee
Notes to the Financial Statements
June 30, 2014

3) Interest in the General Fund Investment Pool - *continued*

Interest Rate Risk – The New Mexico State Treasurer’s Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is a means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk – The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer’s Office for the fiscal year ended June 30, 2014.

4) Capital Assets

Capital asset activity for the year ended June 30, 2014, is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets being depreciated				
Computer equipment	\$ 1,532	-	-	\$ 1,532
Furniture	1,139	-	-	1,139
Total Capital assets being Depreciated	<u>2,671</u>	<u>-</u>	<u>-</u>	<u>2,671</u>
Less accumulated depreciation for				
Computer equipment	1,532	-	-	1,532
Furniture	1,139	-	-	1,139
Total accumulated depreciation	<u>2,671</u>	<u>-</u>	<u>-</u>	<u>2,671</u>
Capital assets, net	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>

5) Compensated Absences

Changes in long-term liabilities for the year ended June 30, 2014, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Governmental activities					
Compensated absences	\$ 11,785	14,413	13,294	12,904	\$ 9,685
Total long-term liabilities	<u>\$ 11,785</u>	<u>14,413</u>	<u>13,294</u>	<u>12,904</u>	<u>\$ 9,685</u>

State of New Mexico
Office of Natural Resources Trustee
Notes to the Financial Statements
June 30, 2014

6) Due to State General Fund

Due to the State General Fund consists of \$1,848 in fiscal year 2014 unencumbered unexpended general fund appropriations and \$42 in receipts for copies.

7) 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 \$31,735 for the year ended June 30, 2014. The Office also entered into a short-term lease for a storage unit with monthly payments of \$107.

Future minimum operating lease commitments are as follows:

<u>Year Ending June 30</u>		
2015	\$	8,519
2016 - 2019		-
Total	<u>\$</u>	<u>8,519</u>

The office will be located in NM Environment Department facilities beginning in FY 15 and therefore may not have lease obligations after mid FY 15.

8) Pension Plan – Public Employees Retirement Association

Plan Description. Substantially all of the Office’s full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (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 10.67% of their gross salary. The Office is required to contribute 13.34% 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 for PERA for the fiscal years ending June 30, 2014, 2013 and 2012 were \$31,302, \$28,069 and \$25,036, respectively, which equal the amount of the required contributions for each fiscal year.

State of New Mexico
Office of Natural Resources Trustee
Notes to the Financial Statements
June 30, 2014

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

Plan Description. The Office contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care act (Chapter 10, Article 7C NMCA 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 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 expense 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 the Financial Statements
June 30, 2014

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

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended **June 30, 2014**, the statute required each participating employer to contribute **2.0%** of each participating employee's annual salary; each participating employee was required to contribute **1.0%** of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Office's contributions to the RHCA for the year's ended June 30, 2014, 2013 and 2012 were \$3,780, \$3,722 and \$2,504, respectively, which equal the required contributions for each year.

10) Risk Management

The Office is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; 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.

11) Due from Other State Agencies

Due from the other state agencies in the amount of \$1,064 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, 2014 and paid subsequent to year-end.

SUPPLEMENTARY INFORMATION

State of New Mexico
Office of Natural Resources Trustee
Schedule of Cash and Investments
June 30, 2014

Schedule 1

	<u>SHARE Fund Number</u>	<u>Financial Statement Balance</u>
General fund investments in the State Treasurer General Fund Investment Pool	49300	\$ 8,779
Trustee fund investment in the State Treasurer General Fund Investment Pool	90000	<u>13,368,660</u>
Total investments in the State Treasurer's General Fund Investment Pool		<u><u>\$13,377,439</u></u>

See Independent Auditor's Report.

**State of New Mexico
Office of Natural Resources Trustee
Interagency Transfers
June 30, 2014**

Schedule 2

	SHARE Fund	Transfers	
		In	Out
General Fund (SHARE #49300)			
(1) Department of Finance and Administration FY14 Compensation Package	62000	\$ 300	
Trustee Fund (SHARE #90000)			
(2) New Mexico Environment Department	06400	\$150,000	
Total Transfers		\$150,000	

(1) General Appropriation Act of 2013

(2) Assessment costs reimbursement from LANL through NM Environment Department
MOA 14-667-1800-0004.

See Independent Auditor's Report

State of New Mexico
Office of Natural Resources Trustee
Intergovernmental Agreements, MOA's and Exempt PSC's
June 30, 2014

Schedule 3

PARTICIPANTS:

Exempt PSC – 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:

\$25,491.00

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

PARTICIPANTS:

MOA- New Mexico Environment Department and the Office of Natural Resources Trustee

Party Responsible for Operations:

New Mexico Environment Department

Description:

Manage, monitor and maintain the implementation of the ASARCO Blackhawk Restoration Project.

Beginning and Ending Dates:

November 15, 2010 through November 15, 2014

State of New Mexico
Office of Natural Resources Trustee
Intergovernmental Agreements, MOA's and Exempt PSC's
June 30, 2014

Schedule 3

Estimated Project Amount:

\$0 – No funding is being provided to the Environment Department under this agreement.

Amount Contributed During Fiscal Year:

\$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

PARTICIPANTS:

MOA – 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:

\$12,600 – Total to be funded by the Office of Natural Resources Trustee.

Amount Contributed During Fiscal Year:

\$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

State of New Mexico
Office of Natural Resources Trustee
Intergovernmental Agreements, MOA's and Exempt PSC's
June 30, 2014

Schedule 3

PARTICIPANTS:

MOA – 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 5, 2008 through June 30, 2016

Estimated Project Amount:

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

Amount Contributed During Fiscal Year:

\$2,626.02

Audit Responsibility:

New Mexico Environment Department

Fiscal Agent:

New Mexico Environment Department

Name of Government Agency Recording Revenues and Expenditures:

New Mexico Environment Department

PARTICIPANTS:

MOA – New Mexico Environment Department and the Office of Natural Resources Trustee

Party Responsible for Operations:

New Mexico Environment Department

Description:

Manage and Implement the San Vicente Creek Mill Restoration Project

Beginning and Ending Dates:

August 22, 2012 through December 31, 2014

Estimated Project Amount:

\$1,261,361.02 – Total to be funded by the Office of Natural Resources Trustee

State of New Mexico
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June 30, 2014

Schedule 3

Amount Contributed During Fiscal Year:

\$275,001.52

Audit Responsibility:

New Mexico Environment Department

Fiscal Agent:

New Mexico Environment Department

Name of Government Agency Recording Revenues and Expenditures:

New Mexico Environment Department

PARTICIPANTS:

IGA – Village of Santa Clara and the Office of Natural Resources Trustee

Party Responsible for Operations:

Village of Santa Clara

Description:

The project will replace, fortify and protect existing sewer lines around Cameron Creek and pave a section of Mill Street

Beginning and Ending Dates:

April 24, 2012 to September 30, 2014

Estimated Project Amount:

\$417,537.85 – Total to be funded by the Office of Natural Resources Trustee

Amount Contributed During Fiscal Year:

\$240,147.89

Audit Responsibility

Village of Santa Clara

Fiscal Agent:

Village of Santa Clara

Name of Government Agency Recording Revenues and Expenditures:

Village of Santa Clara

State of New Mexico
Office of Natural Resources Trustee
Intergovernmental Agreements, MOA's and Exempt PSC's
June 30, 2014

Schedule 3

PARTICIPANTS:

IGA – Village of Santa Clara and the Office of Natural Resources Trustee

Party Responsible for Operations:

Village of Santa Clara

Description:

The purpose of the Project is to protect groundwater used for drinking water by sealing and protecting the well heads of the two main water production wells for the Village

Beginning and Ending Dates:

May 4, 2012 to December 31, 2013

Estimated Project Amount:

\$109,124 – Total to be funded by the Office of Natural Resources Trustee

Amount Contributed During Fiscal Year:

\$13,680.41

Audit Responsibility:

Village of Santa Clara

Fiscal Agent:

Village of Santa Clara

Name of Government Agency Recording Revenues and Expenditures

Village of Santa Clara

PARTICIPANTS:

IGA – Town of Silver City and the Office of Natural Resources Trustee

Party Responsible for Operations:

Town of Silver City

Description:

The project will extend existing municipal sewer lines in the northern portion of Silver City and provide connections to approximately 40 residences that are currently using septic systems

Beginning and Ending Dates:

April 5, 2012 to March 31, 2015

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Intergovernmental Agreements, MOA's and Exempt PSC's
June 30, 2014

Schedule 3

Estimated Project Amount:

\$688,673.33 – Total to be funded by the Office of Natural Resources Trustee

Amount Contributed During Fiscal Year:

\$161,002.31

Audit Responsibility:

Town of Silver City

Fiscal Agent:

Town of Silver City

Name of Government Agency Recording Revenues and Expenditures:

Town of Silver City

PARTICIPANTS:

IGA – Town of Hurley and the Office of Natural Resources Trustee

Party Responsible for Operations:

Town of Hurley

Description:

The project will replace failing sewer lines with new sewer lines in eight priority areas of the town.

Beginning and Ending Dates:

December 5, 2012 to June 30, 2014

Estimated Project Amount:

\$1,374,803 – Total to be funded by the Office of Natural Resources Trustee

Amount Contributed During Fiscal Year:

\$456,125.84

Audit Responsibility:

Town of Hurley

Fiscal Agent:

Town of Hurley

Name of Government Agency Recording Revenues and Expenditures:

Town of Hurley

State of New Mexico
Office of Natural Resources Trustee
Intergovernmental Agreements, MOA's and Exempt PSC's
June 30, 2014

Schedule 3

PARTICIPANTS:

IGA – City of Bayard and Office of Natural Resources Trustee

Party Responsible for Operation:

City of Bayard

Description:

Groundwater Restoration Project

Beginning and Ending Dates:

October 11, 2013 to December 31, 2015

Estimated Project Costs:

\$3,984,440.37 Total to be funded by the Office of the Natural Resources Trustee

Amount Contributed During Fiscal Year:

\$859,150.72

Audit Responsibility:

City of Bayard

Fiscal Agent:

City of Bayard

Name of Governmental Agency Recording Revenues and Expenditures:

City of Bayard

PARTICIPANTS

NM Environment Department and Office of Natural Resources Trustee.

Party Responsible for Operation:

Office of Natural Resources Trustee

Description:

Transfer DOE grant funds from NMED to ONRT for assessment costs incurred.

Beginning and Ending Dates:

September 20, 2013 to September 30, 2014.

Estimated Project Costs:

\$150,000

State of New Mexico
Office of Natural Resources Trustee
Intergovernmental Agreements, MOA's and Exempt PSC's
June 30, 2014

Schedule 3

Amount Contributed During Fiscal Year

\$150,000

Audit Responsibility:

Office of Natural Resources Trustee

Fiscal Agent:

Office of Natural Resources Trustee

Name of Governmental Agency Recording Revenues and Expenses:

Office of Natural Resources Trustee

See Independent Auditor's Report

OTHER REPORTS



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

Ryan Flynn, Trustee
Office of Natural Resources Trustee, State of New Mexico
5500 San Antonio Dr. N.E.
Albuquerque, NM 87109
And
Hector H. Balderas
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund and trustee fund, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of New Mexico Office of Natural Resources Trustee (Office) basic financial statements, and have issued our report thereon dated December 5, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free from material misstatement, we performed test of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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.

Purpose of this Report

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

ZLOTNICK, LAWS & SANDOVAL, PC

Santa Fe, New Mexico

December 5, 2014

State of New Mexico
Office of Natural Resources Trustee
Schedule of Findings and Responses
June 30, 2014

Current Year

There are no current year audit findings.

Prior Year

There were no prior year audit findings.

State of New Mexico
Office of Natural Resources Trustee
Exit Conference
June 30, 2014

The financial statements presented in this report were prepared by the Auditors. Management has reviewed the financial statements, footnotes and accompanying schedules and take full responsibility for them.

The content of the report was discussed at an exit conference held on December 8, 2014 with the following in attendance:

Office of Natural Resources Trustee

Rebecca Neri Zagal, Executive Director
Elysia Martinez, Business Operations Specialist

New Mexico Environment Department

Stacy Lopez, ASD Director
Marlene Cordova, Chief Financial Officer
Cathy Herrera, Fiscal Analyst
Manuelita Martinez, General Ledger Manager

Zlotnick, Laws & Sandoval, P.C.

Richard D. Sandoval, CPA
Principal