

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

**Basic Financial Statements**  
**and**  
**Independent Auditor's Report Thereon**

**June 30, 2016**

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

**Table of Contents**

Official Roster.....	1
<b>Financial Section</b>	
Independent Auditor’s Report.....	2-4
Management’s Discussion and Analysis.....	5-10
<b>Government-Wide Financial Statements</b>	
Exhibit 1 – Statement of Net Position.....	11
Exhibit 2 – Statement of Activities.....	12
<b>Fund Financial Statements</b>	
Exhibit 3 – Balance Sheet – Governmental Funds.....	13
Exhibit 4 – Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position.....	14
Exhibit 5 – Statement of Revenues, Expenditures and Changes in Fund Balances– Governmental Funds.....	15
Exhibit 6 – Reconciliation of the Change in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Exhibit 7 – Statement of Revenues and Expenditures, Budget and Actual (Budgetary Basis) – General Fund.....	17
Exhibit 8 – Statement of Revenues and Expenditures, Budget and Actual (Budgetary Basis) – Trustee Fund.....	18
Notes to the Financial Statements.....	19-30
<b>Supplementary Information</b>	
Schedule 1 – Schedule of Cash and Investments.....	31
Schedule 2 – Interagency Transfers.....	32
Schedule 3 – Intergovernmental Agreements, Memorandums of Understanding and Exempt Personal Services Contracts.....	33-39

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

Other Information

Schedule 4 – Schedule of Vendor Information.....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  
*Governmental Auditing Standards*.....41-42

**Schedule of Findings and Responses**.....43

**Exit Conference**.....44

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

**Official Roster  
June 30, 2016**

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

## Independent Auditor's Report

Ryan Flynn, Trustee  
Office of Natural Resources Trustee, State of New Mexico  
121 Tijeras Avenue NE, Suite 1000  
Albuquerque, New Mexico 87102  
And  
Tim Keller  
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, 2016, 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, 2016, 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 on pages 5-10 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 1-3 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 basic financial statements. The supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 Information*

The Schedule of Vendor Information (Schedule 4) has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016 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  
November 22, 2016

**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2016**

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, 2016. 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, 2016 and 2015 assets of the Office exceeded its liabilities by approximately \$6.4 million and \$8.2 million (net position), most of which was restricted for Natural Resource Damage Assessment and Restoration Program (NRDAR Program) activities.

Governmental Funds:

- ❖ At June 30, 2016, the Office's governmental funds reported fund balance restricted for planning and implementing restoration projects of approximately \$6.1 million and fund balance committed to assessment costs of \$341,153. During the year ended June 30, 2016, total fund balances decreased by approximately \$1.7 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 2016:

- ❖ 8,666 acres of habitat benefited from restoration
- ❖ 1,037 acre-feet of water conserved, restored or protected

Restoration projects in progress or completed in fiscal year 2016:

- ❖ Ancheta Springs Ranch Conservation Easement Project
- ❖ ASARCO Blackhawk Restoration Project
- ❖ Bayard Wastewater Reuse Project
- ❖ Burro Cienega Side Channel, Floodplain, and Low Terrace Restoration Projects
- ❖ Burro Cienega Watershed Restoration Project
- ❖ Curry County Playa Conservation Project
- ❖ Double E Ranch Habitat Protection and Improvement Project
- ❖ Mimbres River Wildlife and Habitat Restoration Project
- ❖ Mountain View Nitrate Plume Restoration Project
- ❖ River Ranch Habitat Protection and Improvement Project
- ❖ San Vicente Creek Mill Project
- ❖ Silver City Ridge Road Sewer Line Extension Project
- ❖ FMI Wildlife and Wildlife Habitat Restoration Re-Opener Process
- ❖ Chevron MolyCorp Mine Draft Restoration Plan/Environmental Assessment Process



**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2016**

**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, 2016**

**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, 2016**

**Office-Wide Financial Analysis**

Net Position. The following table reflects the condensed statement of net position as of June 30, 2016, with comparative amounts for 2015.

	<u>FY2016</u>	<u>FY2015</u>	<u>Percent Change</u>
<b>STATEMENT OF NET POSITION</b>			
<b>ASSETS</b>			
Current and other assets	\$ 6,929,382	\$ 8,353,745	-17.05%
Capital assets, net	-	-	
Total assets	<u>6,929,382</u>	<u>8,353,745</u>	<u>-17.05%</u>
<b>LIABILITIES</b>			
Current liabilities	477,451	171,917	177.72%
Long term liabilities	2,666	3,377	-21.05%
Total liabilities	<u>480,117</u>	<u>175,294</u>	<u>173.89%</u>
<b>NET POSITION</b>			
Invested in capital assets	-	-	
Restricted	6,108,112	7,937,657	-23.05%
Unrestricted	341,153	240,794	41.68%
Total net position	<u>\$ 6,449,265</u>	<u>\$ 8,178,451</u>	<u>-21.14%</u>

The Office's net position decreased by approximately \$1.7 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, 2016**

Change in Net Position. The table below provides a summary of the change in net position for the year ended June 30, 2016, with comparative totals for 2015.

	<u>FY2016</u>	<u>FY2015</u>	<u>Percent Change</u>
<b>STATEMENT OF ACTIVITIES</b>			
<b>REVENUES</b>			
Program revenues	\$ 138,426	\$ -	100.00%
General revenue, net of transfers	406,255	262,460	-269.00%
Total revenues	<u>544,681</u>	<u>262,460</u>	<u>-216.00%</u>
<b>EXPENSES</b>			
Restoration and assessment	<u>2,273,866</u>	<u>4,686,974</u>	<u>-51.49%</u>
Change in net position	(1,729,185)	(4,424,514)	-60.92%
Net position, beginning of year	<u>8,178,450</u>	<u>12,602,964</u>	<u>-35.11%</u>
Net position, end of year	<u>\$ 6,449,265</u>	<u>\$ 8,178,450</u>	<u>-21.14%</u>

The Office spent \$1.42 million in restoration and assessment activities, which were offset by \$253,514 in State of New Mexico general fund appropriations, \$138,426 of damage assessment revenue and \$17,490 in investment income. The Office also transferred \$850,000 to the NM Environment Department (NMED) for restoration projects and NMED returned \$135,251 in unexpended restoration funds from prior years projects.

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, 2016**

**Financial Analysis of the Office's Funds**

At June 30, 2016, the Office's governmental funds reported a combined fund balance of approximately \$6.4 million, a net decrease of \$1.7 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, 2016. All of the Office's capital assets were fully depreciated at June 30, 2016 and 2015, 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, 2016 was \$275,600. As of the end of the year the Office had not expended \$22,086 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  
121 Tijeras Avenue NE, Suite 1000  
Albuquerque, NM 87102

# **OFFICE-WIDE FINANCIAL STATEMENTS**

**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Statement of Net Position**  
**June 30, 2016**

**Exhibit 1**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Investment in State General Fund Investment Pool	\$ 6,794,131
Due from other state agencies	135,251
Capital assets, net (see Note 4)	<u>-</u>
Total assets	<u>\$ 6,929,382</u>
 <b>LIABILITIES</b>	
Accounts payable	\$ 433,240
Accrued payroll	3,602
Accrued payroll taxes and benefits	5,454
Due to other state agencies	53
Due to State General Fund	22,105
Compensated absences (see Note 5)	
Due within one year	12,997
Due in more than one year	<u>2,666</u>
Total liabilities	<u>480,117</u>
 <b>NET POSITION</b>	
Net investment in capital assets	-
Restricted for program expenditures	6,108,112
Unrestricted	<u>341,153</u>
Total net position	<u>\$ 6,449,265</u>

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, 2016**

**Exhibit 2**

	<u>Governmental Activities</u>
<b>Expenses:</b>	
General government	\$ 252,140
NRDAR Program	2,021,726
Total expenses	<u>2,273,866</u>
<b>Program Revenues:</b>	
NRDAR Program	138,426
Total program revenues	<u>138,426</u>
Net program expenses	(2,135,440)
<b>General Revenue and Transfers:</b>	
General fund appropriation	275,600
Interest from SGFIP	17,490
Transfer From NM Environment Department	135,251
Reversion to State General Fund	(22,086)
Total general revenue	<u>406,255</u>
Change in net position	(1,729,185)
Net position at beginning of year	<u>8,178,450</u>
Net position at end of year	<u><u>\$ 6,449,265</u></u>

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, 2016**

**Exhibit 3**

	<u>General Fund (49300)</u>	<u>Trustee Fund (90000)</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Investment in SGFIP	\$ 31,528	6,762,603	\$ 6,794,131
Due from other state agencies		135,251	135,251
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 31,528</u>	<u>\$ 6,897,854</u>	<u>\$ 6,929,382</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	146	433,094	\$ 433,240
Accrued payroll	3,602	-	3,602
Accrued payroll taxes and benefits	5,454	-	5,454
Due to other state agencies	53	-	53
Due to State General Fund	22,105	-	22,105
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>31,360</u>	<u>433,094</u>	<u>464,454</u>
 Fund Balances:			
Restricted			
Planning and implementing restoration projects		6,108,112	6,108,112
Committed to assessment costs	168	356,648	356,816
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>168</u>	<u>6,464,760</u>	<u>6,464,928</u>
 Total liabilities and fund balances			
	<u>\$ 31,528</u>	<u>\$ 6,897,854</u>	<u>\$ 6,929,382</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, 2016**

**Exhibit 4**

Total fund balances for governmental funds		\$ 6,464,928
<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>(15,663)</u>
Net Position of Governmental Activities		<u><u>\$ 6,449,265</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, 2016**

**Exhibit 5**

	General Fund (493000)	Trustee Fund (90000)	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Interest Income	\$ -	\$ 17,490	\$ 17,490
NRDAR Program	-	138,426	138,426
Total revenues	-	155,916	155,916
<b>EXPENDITURES</b>			
Current:			
General government	253,514	-	253,514
NRDAR Program	-	2,021,726	2,021,726
Total expenditures	253,514	2,021,726	2,275,240
Excess (deficiency) of revenues over expenditures	(253,514)	(1,865,810)	(2,119,324)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out:			
Reversions to the State General Fund:			
FY2016	(22,086)	-	(22,086)
Transfers in:			
General fund appropriation	275,600	-	275,600
NM Environment Department	-	135,251	135,251
Total other financing sources (uses)	253,514	135,251	388,765
Net change in fund balances	-	(1,730,559)	(1,730,559)
Fund balances at beginning of year	168	8,195,319	8,195,487
Fund balances at end of year	\$ 168	\$ 6,464,760	\$ 6,464,928

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, 2016**

**Exhibit 6**

Net Change in fund balances - total governmental funds	\$(1,730,559)
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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	1,374
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Change in Net Position of Governmental Activities	\$(1,729,185)
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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, 2016**

**Exhibit 7**

	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Appropriations	277,300	275,600	275,600	-
Other financing sources	-	-	-	-
Total revenues	277,300	275,600	275,600	-
<b>EXPENDITURES</b>				
Administrative Services:				
Personal services & benefits	228,400	228,400	226,664	1,736
Contractual services	7,900	7,900	7,750	150
Other costs	41,000	39,300	19,100	20,200
Other financing uses	-	-	-	-
Total expenditures	\$ 277,300	\$ 275,600	\$ 253,514	\$ 22,086
Excess of revenue and other financing sources over expenditures and other uses			22,086	
Less reversion FY16			(22,086)	
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, 2016**

**Exhibit 8**

	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Interest income	\$ -	\$ -	\$ 17,490	\$ 17,490
NRDAR Program			138,426	138,426
Other financing sources	-	-	135,251	135,251
	-	-	291,167	291,167
<b>FUND BALANCE</b>	<b>2,025,300</b>	<b>4,125,300</b>		
Total revenues and other sources	<b>\$2,025,300</b>	<b>\$4,125,300</b>	<b>\$ 291,167</b>	<b>291,167</b>
 <b>EXPENDITURES</b>				
NRDAR Program				
Personal services & benefits	41,000	41,000	27,000	14,000
Contractual services	1,984,300	4,084,300	1,994,726	2,089,574
Other financing uses	-	-	-	-
Total expenditures	<b>\$2,025,300</b>	<b>\$4,125,300</b>	<b>\$ 2,021,726</b>	<b>\$ 2,103,574</b>
Excess of revenues and other sources over/(under) expenditures and other uses			<b>(1,730,559)</b>	
Changes in fund balances per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			<b>\$ (1,730,559)</b>	

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, 2016**

**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, 2016**

**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, 2016**

**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, 2016**

**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, 2016**

**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, 2016 and 2015 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, 2016 and 2015.

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, 2016**

**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 2015, Chapter 63, Section 3, item L, “For the purpose of administering the General Appropriation Act of 2015 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, 2016**

**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 Reconciliation**

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.

The Financial Control Division (FCD) in collaboration with the State Treasurer’s Office, implemented a comprehensive reconciliation model that compared aggregated agency claims on the State General Fund Investment Pool and to the associated resources held by the State Treasurer’s Office. This process now has been reviewed by the IPAs performing audits of the General Fund, the Department of Finance and Administration and the State of New Mexico’s Comprehensive Annual Financial Report to fiscal year 2015. Each review of the process deemed it to be adequate and the findings related to Cash Reconciliation were significantly reduced or eliminated. Successfully addressing this issue allowed the Department to reinstate \$100M that had been reserved as a loss contingency.

**For FY2016 the following assertions are provided,**

1. The calculated difference between resources maintained by STO and agency claims has remained stable and within a narrow and acceptable range (<\$200k standard deviation) over the last twelve months;
2. Resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP;
3. All claims will be honored at face value.

**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Notes to the Financial Statements**  
**June 30, 2016**

**2) General Fund Investment Pool Reconciliation - *continued***

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, 2016.

**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, 2016 the Office had the following invested in the General Fund Investment Pool:

General Fund Investment Pool: \$6,794,131.

All cash of the Office is held in the State Treasurer General Fund Investment Pool. The State Treasurer has the power to invest money held in demand deposits and not immediately needed for the operation of state government in securities in accordance with Section 6-10-10, I through O, NMSA 1978 as amended.

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, 2016.

For additional disclosure information regarding the investment in the State Treasurer's SGFIP, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2016, review the State Treasurer's Investment Policy at <http://www.stonm.org/Investments/InvestmentPolicy>, 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 the Financial Statements**  
**June 30, 2016**

**4) Capital Assets**

Capital asset activity for the year ended June 30, 2016, 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>

There is no depreciation expense for the fiscal year ended June 30, 2016.

**5) Compensated Absences**

Changes in long-term liabilities for the year ended June 30, 2016, 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	\$ 17,037	24,409	14,950	15,663	\$ 12,997
Total long-term liabilities	<u>\$ 17,037</u>	<u>24,409</u>	<u>14,950</u>	<u>15,663</u>	<u>\$ 12,997</u>

**6) Due to State General Fund**

Due to the State General Fund consists of \$22,086 in fiscal year 2016 unencumbered unexpended general fund appropriations and \$19 in stale-dated warrants.

**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Notes to the Financial Statements**  
**June 30, 2016**

**7) Operating Leases**

The Office leases office space under an operating lease. The lease is a twenty-year lease ending June 30, 2035. Monthly payments started at \$795 with a 2% increase in the operating cost component each year. Operating leases do not give rise to property rights or lease obligation, and therefore, the results of the lease agreement are not reflected in the assets or liabilities of the Office.

The office is located at 121 Tijeras Avenue, NE, Suite 1000, Albuquerque, NM 87102-3400.

The minimum payments under the lease agreement are as follows:

Fiscal year ending June 30:

2017	\$	9,612
2018		9,686
2019		9,760
2020		9,834
2021		9,908
2022 -2026		50,743
2027-2031		52,878
2032-2035		43,985
	<u>\$</u>	<u>196,406</u>

Lease expense was \$9,545 for the year ended June 30, 2016.

**8) Financial Reporting and Disclosure for Multiple-Employer Cost Sharing Pension Plans by Employers**

Compliant with the requirements of Government Accounting Standards Board Statement No. 68 (GASB 68), Accounting and Financial Reporting for Pensions, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2015. The Office of Natural Resources Trustee, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico. Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Notes to the Financial Statements**  
**June 30, 2016**

**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](http://www.nmrhca.state.nm.us).

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.

**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Notes to the Financial Statements**  
**June 30, 2016**

**9) 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, 2016**, 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, 2016, 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, 2016, 2015 and 2014 were \$3,535, \$3,793, and \$3,780, 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/To Other State Agencies**

Due From/To Other State Agencies are the result of transactions with the New Mexico Environment Department as follows:

<u>Purpose</u>	<u>Agency</u>	<u>Fund No.</u>	<u>Due From</u>	<u>Due To</u>
<b><u>Trustee Fund 90000</u></b>				
Unexpended Restoration Funds	667	06400	\$ 135,251	\$ -
<b><u>General Fund 49300</u></b>				
MOA-Administrative Support	667	06400	\$ -	\$ 53
			<u>\$ 135,251</u>	<u>\$ 53</u>

**12) Subsequent Events Review**

A review of subsequent events through November 22, 2016, which is the date the financial statements were available for issuance, revealed no significant subsequent events which require disclosure.

## **SUPPLEMENTARY INFORMATION**

**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Schedule of Cash and Investments**  
**June 30, 2016**

**Schedule 1**

	<u>SHARE Fund Number</u>	<u>Financial Statement Balance</u>
General fund investments in the State Treasurer General Fund Investment Pool	49300	\$ 31,528
Trustee fund investment in the State Treasurer General Fund Investment Pool	90000	<u>6,762,603</u>
Total investments in the State Treasurer's General Fund Investment Pool		<u>\$6,794,131</u>

See Independent Auditor's Report.

**State of New Mexico  
Office of Natural Resources Trustee  
Interagency Transfers  
June 30, 2016**

**Schedule 2**

	SHARE Fund	Transfers	
		In	Out
<b>Trustee Fund (SHARE #90000)</b>			
1) New Mexico Environment Department NMED/ONRT-MOA	06400	81,175	-
2) New Mexico Environment Department NMED/ONRT-MOA	06400	54,076	-
Total Transfers		\$135,251	\$ -

- 1) Return of unexpended funds on Memorandum of Agreement for the San Vicente Creek restoration project completed during fiscal year 2016.
- 2) Return of unexpended funds on Memorandum of Agreement for the Mountain View Nitrate Plume restoration project completed during fiscal year 2016.

See Independent Auditor's Report

**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Intergovernmental Agreements, MOA's and Exempt PSC's**  
**June 30, 2016**

**Schedule 3**

**PARTICIPANTS:**

Exempt PSC #5377 – 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 (U.S.FWS Co-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 #15-668-0100-0002 – 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



**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Intergovernmental Agreements, MOA's and Exempt PSC's**  
**June 30, 2016**

**Schedule 3**

Beginning and Ending Dates:

March 12, 2015 through March 31, 2018

Estimated Project Amount:

\$850,000 – Total to be funded by the Office of Natural Resources Trustee

Amount Contributed During Fiscal Year:

\$850,000

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 #09-668-MOA-0001 – 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:

\$0. Unexpended funds of \$54,076.07 was returned by the New Mexico Environment Department to the Office of Natural Resources Trustee at the end of the fiscal year.

Audit Responsibility:

New Mexico Environment Department

**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Intergovernmental Agreements, MOA's and Exempt PSC's**  
**June 30, 2016**

**Schedule 3**

Fiscal Agent:

New Mexico Environment Department

Name of Government Agency Recording Revenues and Expenditures:

New Mexico Environment Department

**PARTICIPANTS:**

MOA #13-668-0100-0002– 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 March 31, 2016

Estimated Project Amount:

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

Amount Contributed During Fiscal Year:

\$0. Unexpended funds of \$81,175.42 was returned by the New Mexico Environment Department to the Office of Natural Resources Trustee as of the end of the fiscal year.

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 #12-668-0100-0004 – Town of Silver City and the Office of Natural Resources Trustee

Party Responsible for Operations:

Town of Silver City

**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Intergovernmental Agreements, MOA's and Exempt PSC's**  
**June 30, 2016**

**Schedule 3**

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 August 31, 2015

Estimated Project Amount:

\$734,402.43 – Total to be funded by the Office of Natural Resources Trustee

Amount Contributed During Fiscal Year:

\$0

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 #15-668-0100-0003 – 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 southern portion of Silver City and provide connections to approximately 162 residences that are currently using septic systems

Beginning and Ending Dates:

May 11, 2015 to May 15, 2019

Estimated Project Amount:

\$3,260,182.09 – Total to be funded by the Office of Natural Resources Trustee

Amount Contributed During Fiscal Year:

\$188,892.00

Audit Responsibility:

Town of Silver City

**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Intergovernmental Agreements, MOA's and Exempt PSC's**  
**June 30, 2016**

**Schedule 3**

Fiscal Agent:

Town of Silver City

Name of Government Agency Recording Revenues and Expenditures:

Town of Silver City

**PARTICIPANTS:**

IGA #16-668-0100-0002 – Town of Silver City and the Office of Natural Resources Trustee

Party Responsible for Operations:

Town of Silver City

Description:

The purpose of this Project is to provide assistance to homeowners within the project area, assistance will consist of abandonment of existing on-site septic systems and physical connection of residences to new municipal sewer lines.

Beginning and Ending Dates:

December 28, 2015 to October 31, 2019

Estimated Project Amount:

\$833,762.34 – Total to be funded by the Office of Natural Resources Trustee

Amount Contributed During Fiscal Year:

\$6,273.45

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 #14-668-0100-0002 – City of Bayard and Office of Natural Resources Trustee

Party Responsible for Operation:

City of Bayard

**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Intergovernmental Agreements, MOA's and Exempt PSC's**  
**June 30, 2016**

**Schedule 3**

Description:

The project will treat wastewater from Bayard's wastewater treatment plant and use it for irrigation purposes

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:

\$70,025.96

Audit Responsibility:

City of Bayard

Fiscal Agent:

City of Bayard

Name of Governmental Agency Recording Revenues and Expenditures:

City of Bayard

**PARTICIPANTS**

MOA #16-668-0100-0004 – NM Environment Department and Office of Natural Resources Trustee

Party Responsible for Operation:

New Mexico Environment Department

Description:

NMED shall perform financial tasks for ONRT including but not limited to accounts payable, accounts receivable, purchasing and processing of contracts.

Beginning and Ending Dates:

June 5, 2016- April 30, 2017

Estimated Costs:

\$8,000.00

Amount Contributed During Fiscal Year

\$52.74

Audit Responsibility:

New Mexico Environment Department

**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Intergovernmental Agreements, MOA's and Exempt PSC's**  
**June 30, 2016**

**Schedule 3**

Fiscal Agent:

New Mexico Environment Department

Name of Governmental Agency Recording Revenues and Expenses:

New Mexico Environment Department

**PARTICIPANTS**

MOA#16-668-0100-0003 – NM Environment Department and Office of Natural Resources Trustee

Party Responsible for Operation:

New Mexico Environment Department

Description:

Transfer funds from ONRT to NMED for office space utilized by ONRT located at the Springer Building for the period 7/1/15-12/31/15. ONRT will pay rent payments directly to the Lessor after that time-period.

Beginning and Ending Dates:

January 6, 2016 - June 30, 2035

Estimated Costs:

\$4,772.40

Amount Contributed During Fiscal Year

\$4,772.40

Audit Responsibility:

New Mexico Environment Department

Fiscal Agent:

New Mexico Environment Department

Name of Governmental Agency Recording Revenues and Expenses:

New Mexico Environment Department

See Independent Auditor's Report

NM Office of Natural Resources Trustee  
 SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding \$60,000 (excluding GRT)  
 For the Year Ended June 30, 2016

Prepared by Agency Staff Name: Elysia C. Bunten Title: Business Operations Specialist Date 6/27/16

**Schedule 4**

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
		<b>NONE</b>						

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  
121 Tijeras Avenue NE, Suite 1000  
Albuquerque, NM 87102  
And  
Tim Keller  
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, 2016, 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 November 22, 2016.

**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 and therefore, material weaknesses or significant

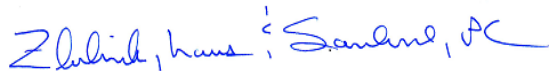
deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

### **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

November 22, 2016

**State of New Mexico**  
**Office of Natural Resources Trustee**  
**Schedule of Findings and Responses**  
**June 30, 2016**

**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, 2016**

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

The content of the report was discussed at an exit conference held on November 22, 2016 with the following in attendance:

**Office of Natural Resources Trustee**

Trais Kliphuis, Executive Director  
Elysia Bunten, Business Operations Specialist

**New Mexico Environment Department**

Stacy Lopez, ASD Director  
Marlene Cordova, Chief Financial Officer

**Zlotnick, Laws & Sandoval, P.C.**

Richard D. Sandoval, CPA  
Principal