



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS**

June 30, 2021

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**State of New Mexico Commissioner of Public Lands
Official Roster
June 30, 2021**

<u>Name</u>	<u>Title</u>
Stephanie Garcia Richard	Commissioner of Public Lands
Sunalei Stewart	Deputy Commissioner of Operations
Tarin Nix	Deputy Commissioner of Public Affairs

Assistant Commissioners of Public Lands

Selena Romero	Administrative Services
Steve Vierck	Commercial Resources
Angie Poss	Communications
Rachael Lorenzo	Cultural Resources
Ari Biernoff	General Counsel
Greg Bloom	Oil, Gas and Mineral Resources
Dana Vackar Strang	Surface Resources
Margaret Sena	Accounting

Division Directors

Antonio Medina	Accounting Division
James Bordegaray	Commercial Leasing Division
Bobby Gallegos	Facilities Management Division
Estevan Baca	Royalty Management Division
Shannell Townsend	Human Resources Division
Allison Marks	Oil, Gas and Minerals Division
Lesley Schimoler	Records Management Division
Tony Hoffman	Information Technology Division
Jeremy Lewis	Office of Renewable Energy

Report of Independent Auditors

Ms. Stephanie Garcia Richard
State of New Mexico
Commissioner of Public Lands

Mr. Brian Colón, Esq.
New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and the budgetary comparison for the general fund of the New Mexico Commissioner of Public Lands (State Land Office), an agency of the State of New Mexico, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the State Land 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 entity'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, each major fund, and the aggregate remaining fund information of the New Mexico Commissioner of Public Lands (State Land Office) as of June 30, 2021, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the State Land Office are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities that are attributable to the transactions of the State Land Office. They do not purport to and do not present fairly the financial position of the State of New Mexico as of June 30, 2021, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Land Office's basic financial statements. The combining schedules for governmental nonmajor funds (supplementary information) are presented for purpose of additional analysis and are not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is 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 November 1, 2021 on our consideration of the State Land 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State Land Office's 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 State Land Office's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
November 1, 2021

State of New Mexico Commissioner of Public Lands

Management's Discussion and Analysis

June 30, 2021

The Management's Discussion and Analysis (MD&A) provides a summary of the New Mexico State Land Office's (State Land Office's) past and current financial condition. Further, the discussion and analysis of the State Land Office's financial performance, introduces the basic financial statements and provides an analytical overview of the agency's financial activities for the year ended June 30, 2021. The report provides an analysis of the agency's overall financial position and results of operations, information on changes in the agency's financial position, and a discussion of significant changes in assets and liabilities. Since the MD&A is designed to focus on the current year activities, resulting changes, and currently known facts, please read it in conjunction with the agency's financial statements.

FINANCIAL STATEMENTS

The State Land Office's basic financial statements are presented in four parts, in the following order:

1. Government-wide financial statements,
2. Fund financial statements,
3. Budgetary comparison statements, and
4. Notes to the basic financial statements

Government-Wide Financial Statements

The government-wide financial statements include the first two financial statements, the statement of net position and the statement of activities. These statements report information on the financial activities and resources of the State Land Office as a whole. The State Land Office's operations are financed by Land Maintenance Fund (LMF) revenue appropriated as other state funds, which includes rental income, interest income, other state funds, and other income on the fund financial statements.

The government-wide statement of net position reports the assets of the State Land Office and the corresponding claims and liabilities against those assets as of June 30, 2021. The difference between the value of the assets and the liabilities is reflected as the value of the net position. Increases or decreases in net position measure whether the financial position of the State Land Office improved or deteriorated. Net position legally limited to a particular use are reported as restricted. Unrestricted net position represents balances that can be used to fund operating expenses in future years.

Government-wide statement of activities reports the expenses of administering state trust lands with a comparison of the program revenues obtained to finance costs.

Fund Financial Statements

The fund financial statements that follow the department-wide financial statements report on the financial position and changes in financial position of the individual funds used by the State Land Office.

Funds are separate accounting entities used in government accounting to segregate transactions according to the sources of funding and to demonstrate legal compliance with the restrictions that may be imposed on those financial resources. The State Land Office uses two types of governmental funds to account for its financial activities: the general fund and special revenue funds:

State of New Mexico Commissioner of Public Lands
Management's Discussion and Analysis
June 30, 2021

The general fund is used to account for the finances of the governmental activities reported in the department-wide financial statements. The State Land Office uses a general fund to account for its general operating activities.

Special revenue funds are used to record inflows that must be used for a specified purpose. The State Land Office uses five special revenue funds as clearing accounts for payments. Please refer to Note 1 to the financial statements for an explanation of these funds.

FINANCIAL HIGHLIGHTS

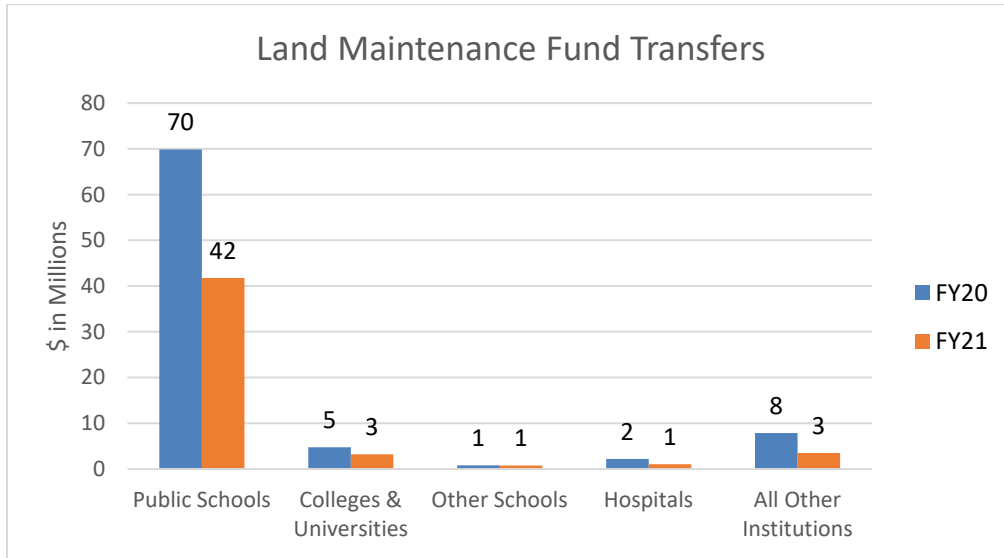
The Commissioner of Public Lands is responsible for administering state trust lands to generate revenue for public institutions designated as trust beneficiaries, while also ensuring the long-term health and productivity of state trust lands for future generations of New Mexicans. The Commissioner of Public Lands is an independent elected official and serves as the chief executive of the State Land Office pursuant to the New Mexico Constitution. Fiscal year 2021 marked the highest annual revenue on record at \$1.252 billion, an increase from the \$1.055 billion generated in fiscal year 2020. State Land Office earnings support public schools, universities, hospitals, and other public purposes throughout the state while reducing the burden on taxpayers to fund these services.

The agency's operations are funded from a portion of the revenue it generates each year and do not rely on General Fund appropriations. The Land Maintenance Fund (LMF) is the general operating fund of the State Land Office and is used to account for the general operations of the office in carrying out its specific functions. Sources of revenue are provided by the transfer of lease and miscellaneous (fees and interest on deposits) receipts from the Land Suspense Fund. In addition to operations, LMF revenue funds capital outlay, special appropriations and the Restoration and Remediation Fund. Unused revenue sources are distributed directly to beneficiaries at the end of each month.

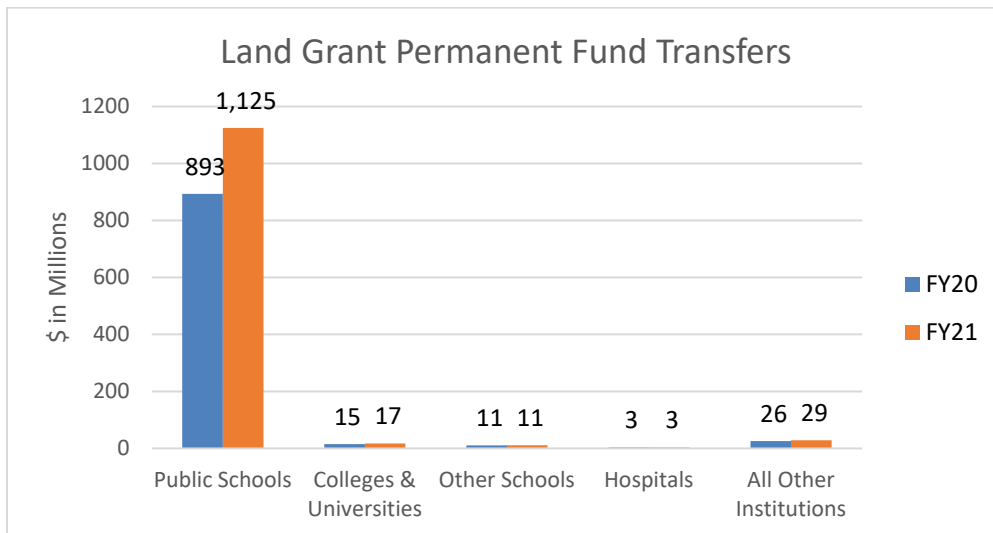
Revenue earned from renewable and non-renewable sources are tied to a lease and each lease identifies the beneficiary's share of the lease. Land Maintenance Fund revenue is derived from renewable sources (which do not involve the permanent depletion of a resource), such as agricultural leasing, solar and wind projects, monthly oil and gas lease sale bonuses, and other rentals and miscellaneous income. LMF revenue in fiscal 2021 decreased to approximately \$68 million, representing a decline of approximately \$40 million from fiscal 2020. This decrease was attributed to significantly lower bonus income from monthly oil and gas lease sales and fewer premium tracts available for leasing in the agency's land portfolio.

**State of New Mexico Commissioner of Public Lands
Management’s Discussion and Analysis
June 30, 2021**

Amounts shown below summarize total transfers after withholding for fiscal 2021 budgetary expenses and the Restoration and Remediation fund.



Land Grant Permanent Fund (LGPF) revenue is from non-renewable sources (which permanently deplete a resource), such as oil and gas royalties. LGPF revenue in fiscal 2021 increased by \$237 million compared to fiscal 2020 for a record \$1.184 billion. The LGPF revenue is transferred to the Land Grant Permanent Fund at the New Mexico State Investment Council and invested on behalf of the beneficiaries. The New Mexico State Investment Council distributes LGPF earnings to beneficiaries based on the formula set in the Constitution.



**State of New Mexico Commissioner of Public Lands
Management's Discussion and Analysis
June 30, 2021**

Net Position and Changes in Net Position

The following table summarizes the net position of the agency as of June 30, 2021 and 2020:

	2021	2020	Amount Change	Total % Change
Assets				
Current and other assets	\$ 466,767,266	\$ 275,315,857	\$ 191,451,409	70%
Capital assets less accumulated depreciation	63,050,310	60,008,698	3,041,612	5%
Total assets	<u>\$ 529,817,576</u>	<u>\$ 335,324,555</u>	<u>\$ 194,493,021</u>	58%
Liabilities				
Current liabilities	\$ 460,018,713	\$ 264,420,439	\$ 195,598,274	74%
Net position				
Net investment in capital assets	63,050,310	60,008,698	3,041,612	5%
Restricted	7,947,584	11,548,767	(3,601,183)	-31%
Unrestricted	(1,199,031)	(653,349)	(545,682)	84%
Total net position	<u>69,798,863</u>	<u>70,904,116</u>	<u>(1,105,253)</u>	-2%
Total liabilities and net position	<u>\$ 529,817,576</u>	<u>\$ 335,324,555</u>	<u>\$ 194,493,021</u>	58%

Net position decreased by 2% at June 30, 2021 compared to June 30, 2020. Liabilities increased due to the increase in oil and gas revenue due to the LGPF.

The government-wide financial statements also include the statement of activities. This statement is focused on the cost of various activities that are provided by the agency's general and other revenues. This section is intended to summarize and simplify the users' analysis of the cost of operating the State Land Office and amounts due to our beneficiaries. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**State of New Mexico Commissioner of Public Lands
Management's Discussion and Analysis
June 30, 2021**

The following table presents the statement of activities for the agency for year ended June 30, 2021, with comparative balances for the year ended June 30, 2020.

	2021	2020	Amount Change	Total % Change
Expenses				
General government	\$ (20,274,085)	\$ (20,959,871)	\$ 685,786	-3%
Program revenues				
Land royalties and rental income	1,251,204,377	20,723,824	1,230,480,553	
Distributions to beneficiaries	(1,227,567,859)	-	(1,227,567,859)	
Reapportionable to other beneficiaries	(4,789,043)	(7,064,935)	2,275,892	
Net expenses	(1,426,610)	(7,300,982)	5,874,372	-80%
General revenues				
Other income	25,216	725,959	(700,743)	
Unrestricted investment earnings	295,803	9,669,539	(9,373,736)	
Gain on sale of capital assets	338	25,435	(25,097)	
Total general revenues	321,357	10,420,933	(10,099,576)	-97%
Change in net position	(1,105,253)	3,119,951	(4,225,204)	-135%
Net position, beginning of year	70,904,116	67,784,165	3,119,951	5%
Net position, end of year	\$ 69,798,863	\$ 70,904,116	\$ (1,105,253)	-2%

The significant increase in program revenue is due to a change in accounting for land royalties and rental income. During fiscal 2021, the State Land Office began recognizing the income for all sources and total transfers. Previously, the New Mexico State Investment Council recognized land royalty income and each beneficiary recognized their portion of the rental income distributed. Revenues recognized for land royalties and rental income totaled \$1.252 billion for the year ended June 30, 2021.

BUDGETARY COMPARISONS

Governmental Accounting Standards Board Statement No. 34 requires budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget to be presented. The budgetary comparison schedules present both the original and final appropriated budgets for the reporting period as well as the actual inputs, outputs, and balances stated on the government's budgetary basis. As required by the New Mexico Office of the State Auditor under NMAC 2.2.2.10, the statements of revenues and expenditures – budget and actual are also presented.

**State of New Mexico Commissioner of Public Lands
Management's Discussion and Analysis
June 30, 2021**

The general fund is the operating fund for the State Land Office. Due to the nature of the Oil and Gas Royalty Fund, the State Land Office does not submit a budget for this major special revenue fund's operations. Accordingly, no budgetary comparison schedule is presented in the financial statements for this fund.

The State Land Office is a non-general fund agency and reserves revenue needed to support operations or special appropriations. Since amounts are held to fund projected expenditures, any variance as of June 30 will revert to the beneficiaries in accordance with 19-1-13 NMSA 1978. The balance remaining in the general fund on June 30 of each year shall be apportioned back to the beneficiaries.

General Fund Budgetary Highlights

The New Mexico State Legislature makes annual appropriations to the agency. The general fund (LMF) is the revenue source for the agency's budget. All adjustments to the budget require approval by the Budget Division of the New Mexico Department of Finance and Administration with review by the Legislative Finance Committee. Over the course of the year, the State Land Office may adjust its budget as authorized in the General Appropriations Act or through other acts of the legislature.

CAPITAL ASSETS

The State Land Office investment in capital assets as of June 30, 2021 totaled \$63,050,310, net of accumulated depreciation. This investment in capital assets includes lands, buildings, automobiles, furniture, equipment and machinery, and data processing equipment. The following summarizes capital assets as of June 30, 2020 and 2021.

	2021	2020	Amount Change	Total % Change
Capital assets				
Land	\$ 50,100,028	\$ 50,100,028	\$ -	0%
Construction in progress	9,344,741	5,474,991	3,869,750	71%
Buildings and library	5,658,943	5,658,943	-	0%
Furniture, fixtures, and equipment	465,377	474,224	(8,847)	-2%
Data processing	5,816,433	5,816,433	-	0%
Automobiles	1,119,232	1,049,802	69,430	7%
Total capital assets	72,504,754	68,574,421	3,930,333	6%
Accumulated depreciation	(9,454,444)	(8,565,723)	(888,721)	10%
Capital assets, net	<u>\$ 63,050,310</u>	<u>\$ 60,008,698</u>	<u>\$ 3,041,612</u>	5%

**State of New Mexico Commissioner of Public Lands
Management's Discussion and Analysis
June 30, 2021**

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS OF FUTURE SIGNIFICANCE

Fiscal year 2021 marked the highest total annual revenue generated in the history of the State Land Office. The State Land Office generated \$1.252 billion, which represented an increase of 19% compared with the previous fiscal year. Fiscal year 2021 also marked a record for oil and gas royalties: \$1.184 billion, a 25% increase over fiscal year 2020. State trust land oil and gas production and prices have remained strong. However, oil and gas world markets continue to face considerable uncertainty in light of the COVID-19 pandemic. Fiscal year 2022 oil and gas royalties, which are deposited into the LGPF, are expected to maintain steady levels; however, significant uncertainty in market conditions remains.

LMF income has decreased, and is expected to continue to decrease, primarily due to less premium oil and gas tracts being available for leasing. Oil and gas leases are held by production and most of the best producing areas are already leased. Fiscal year 2021 LMF income was \$68 million, down 37% from fiscal year 2020's \$108 million. LMF revenue is expected to reach more historical levels, which have generally ranged between \$70 to \$100 million over the last ten years. However, with the State Land Office's new emphasis on wind and solar projects renewable energy, as well as other economic diversification efforts, is likely to be an area of income growth for the LMF in future years.

FINANCIAL CONTACT

The agency's financial statements are designed to present users with the general overview of the finances and to demonstrate the administrative department's accountability. If you have questions about the report or need additional financial information, contact the agency's Assistant Commissioner for Administrative Services at (505) 827-5790 or the agency's Chief Financial Officer at (505) 827-5705. You can also reach them by mail at 310 Old Santa Fe Trail, PO Box 1148, Santa Fe, New Mexico 87501-1148.

State of New Mexico Commissioner of Public Lands
Statement of Net Position
June 30, 2021

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 400
Interest in the State General Fund Investment Pool	207,743,754
Receivables	
Royalties	232,144,099
Interest assessments, net	2,440,982
Other receivables	19,422
Investments	24,418,609
Total current assets	466,767,266
Capital assets, net of accumulated depreciation	63,050,310
TOTAL ASSETS	\$ 529,817,576
LIABILITIES	
Current liabilities	
Accounts payable	\$ 3,125,185
Accrued payroll and payroll liabilities	432,297
Compensated absences payable	766,905
Due to other agencies	239,408,758
Undistributed receipts	216,285,568
Total current liabilities	460,018,713
NET POSITION	
Net investment in capital assets	63,050,310
Restricted for capital projects and special appropriations	7,947,584
Unrestricted	(1,199,031)
Total net position	69,798,863
TOTAL LIABILITIES AND NET POSITION	\$ 529,817,576

See accompanying notes to these financial statements.

State of New Mexico Commissioner of Public Lands
Statement of Activities
Year Ended June 30, 2021

	<u>Governmental Activities</u>
EXPENSES	
General government	<u>\$ 20,274,085</u>
PROGRAM REVENUES	
Charges for services	1,251,204,377
Less: reapportionment to beneficiaries	<u>(4,789,043)</u>
	<u>1,246,415,334</u>
NET PROGRAM REVENUES	<u>1,226,141,249</u>
GENERAL REVENUES AND TRANSFERS	
Interest income	295,803
Other income	25,216
Gain on sale of assets	338
Transfers to beneficiaries	<u>(1,227,567,859)</u>
Net general revenues and transfers	<u>(1,227,246,502)</u>
CHANGE IN NET POSITION	(1,105,253)
NET POSITION	
Beginning of year	<u>70,904,116</u>
End of year	<u><u>\$ 69,798,863</u></u>

See accompanying notes to these financial statements.

State of New Mexico Commissioner of Public Lands
Balance Sheet – Governmental Funds
June 30, 2021

	Major Funds			Total Governmental Funds
	General Fund 09800	Oil and Gas Royalty Fund 26400	Nonmajor Funds	
ASSETS				
Cash	\$ 400	\$ -	\$ -	\$ 400
Interest in the State General Fund				
Investment Pool	13,450,394	166,849,048	27,444,312	207,743,754
Due from other funds	239,471,889	9,050,000	518,669	249,040,558
Receivables				
Royalties	-	232,144,099	-	232,144,099
Interest assessments, net	-	-	2,440,982	2,440,982
Other	-	-	19,422	19,422
Investments	-	-	24,418,609	24,418,609
TOTAL ASSETS	\$ 252,922,683	\$ 408,043,147	\$ 54,841,994	\$ 715,807,824
LIABILITIES				
Accounts payable	\$ 3,123,381	\$ -	\$ 1,804	\$ 3,125,185
Accrued payroll	432,297	-	-	432,297
Due to other funds	518,669	239,408,758	9,113,131	249,040,558
Due to other agencies	239,408,758	-	-	239,408,758
Undistributed receipts	4,789,043	168,634,389	42,862,136	216,285,568
TOTAL LIABILITIES	248,272,148	408,043,147	51,977,071	708,292,366
FUND BALANCES				
Nonspendable	400	-	-	400
Spendable				
Restricted for special and capital appropriations	5,082,661	-	2,864,923	7,947,584
Committed for projects	23,012	-	-	23,012
Unassigned	(455,538)	-	-	(455,538)
TOTAL FUND BALANCES	4,650,535	-	2,864,923	7,515,458
TOTAL LIABILITIES AND FUND BALANCES	\$ 252,922,683	\$ 408,043,147	\$ 54,841,994	\$ 715,807,824

See accompanying notes to these financial statements.

**State of New Mexico Commissioner of Public Lands
Reconciliation of the Balance Sheet to the Statement of Net Position –
Governmental Funds
June 30, 2021**

TOTAL FUND BALANCE (BALANCE SHEET - GOVERNMENTAL FUNDS) \$ 7,515,458

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

Capital assets (net of accumulated depreciation) used in governmental activities
are not financial resources and, therefore, are not reported in the funds. 63,050,310

Long-term liabilities, including compensated absences payable,
are not due and payable in the current period and, therefore, are not reported
in the funds. (766,905)

NET POSITION OF GOVERNMENTAL ACTIVITIES (STATEMENT OF NET POSITION) \$ 69,798,863

See accompanying notes to these financial statements.

State of New Mexico Commissioner of Public Lands
Statement of Revenues, Expenditures, and Changes in Fund Balance –
Governmental Funds
Year Ended June 30, 2021

	Major Funds			Total
	General Fund 09800	Oil and Gas Royalty Fund 26400	Nonmajor Funds	
REVENUES				
Land royalties	\$ -	\$ 1,184,422,711	\$ -	\$ 1,184,422,711
Rental income	-	-	64,685,240	64,685,240
Other state funds	-	-	2,096,426	2,096,426
Interest income	295,803	-	-	295,803
Other income	468	-	25,086	25,554
Total revenues	296,271	1,184,422,711	66,806,752	1,251,525,734
EXPENDITURES				
Personal services	10,484,933	-	-	10,484,933
Employee benefits	3,963,889	-	-	3,963,889
In-state travel	91,307	-	-	91,307
Maintenance and repairs	1,250,752	-	-	1,250,752
Supplies	534,872	-	-	534,872
Contractual services	2,330,448	-	-	2,330,448
Operating costs	606,206	-	25,086	631,292
Out-of-state travel	3,652	-	-	3,652
	19,266,059	-	25,086	19,291,145
Capital outlay	3,939,180	-	-	3,939,180
Total expenditures	23,205,239	-	25,086	23,230,325
OTHER FINANCING SOURCES (USES)				
Interfund transfers in (out)	1,250,553,170	(1,184,422,711)	(66,130,459)	-
Less: reapportionment to beneficiaries	(4,789,043)	-	-	(4,789,043)
Distributions to beneficiaries	(1,227,567,859)	-	-	(1,227,567,859)
Total other financing sources (uses)	18,196,268	(1,184,422,711)	(66,130,459)	(1,232,356,902)
NET CHANGE IN FUND BALANCE	(4,712,700)	-	651,207	(4,061,493)
FUND BALANCE				
Beginning of year	9,363,235	-	2,213,716	11,576,951
End of year	\$ 4,650,535	\$ -	\$ 2,864,923	\$ 7,515,458

See accompanying notes to these financial statements.

State of New Mexico Commissioner of Public Lands
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance of Governmental Funds to the Statement of Activities –
Governmental Activities
Year Ended June 30, 2021

NET CHANGES IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS
(STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES) \$ (4,061,493)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	3,939,180
Depreciation expense	(897,568)

Expenses in the statement of activities that do not consume current financial resources are not reported as expenditures in the funds:

Increase in compensated absences	<u>(85,372)</u>
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CHANGE IN NET POSITION (STATEMENT OF ACTIVITIES)	<u><u>\$ (1,105,253)</u></u>
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State of New Mexico Commissioner of Public Lands
Statement of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual General Fund – Including Multi-Year Appropriations
Year Ended June 30, 2021

	Budgeted Amounts Original	Final	Actual Amounts (Budgetary Basis)	Variances Final to Actual
REVENUES				
Rental income	\$ 15,408,984	\$ 15,408,984	\$ 17,829,804	\$ 2,420,820
Less: reapportionment to beneficiaries	-	-	(4,789,043)	(4,789,043)
Rental income, net	15,408,984	15,408,984	13,040,761	(2,368,223)
Other services - interagency	1,786,591	1,786,591	2,096,426	309,835
Special appropriations & capital outlay	8,112,377	8,112,377	3,480,000	(4,632,377)
Interest income	2,915,480	2,915,480	295,803	(2,619,677)
Other income	25,845	25,845	468	(25,377)
Total revenues	<u>28,249,277</u>	<u>28,249,277</u>	<u>18,913,458</u>	<u>9,335,819</u>
EXPENDITURES				
Personnel services and employee benefits	15,293,000	15,293,000	14,448,822	844,178
Contractual services	7,983,096	7,983,096	5,470,385	2,512,711
Other costs	4,973,181	4,973,181	3,286,032	1,687,149
Total expenditures	<u>28,249,277</u>	<u>28,249,277</u>	<u>23,205,239</u>	<u>5,044,038</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	<u>\$ -</u>	<u>\$ -</u>	(4,291,781)	<u>\$ 4,291,781</u>
Rental income (non budgeted)			<u>420,919</u>	
NET CHANGE IN FUND BALANCE (GAAP BASIS)			<u>\$ (4,712,700)</u>	

See accompanying notes to these financial statements.

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

Organization

The State of New Mexico Commissioner of Public Lands (the State Land Office) was created by the Constitution of New Mexico, Article XIII, Sections 1 and 2, Sections 19-1-1 through 19-15-10 (NMSA) and others in NMSA 1978. The Commissioner of Public Lands (the Commissioner) is elected by the citizens of the State of New Mexico.

The Constitution and Enabling Act combine to create a very specific trust document which granted lands to the State Land Office and designate the Commissioner as the trustee. As a result, the State Land Office controls approximately 9.0 million acres of surface rights and approximately 13.0 million acres of mineral rights in the State of New Mexico. Trust assets are sold, leased, controlled, and managed by the Commissioner and staff to develop income for specified beneficiaries. The Commissioner and staff plan and preserve the assets and resources of the trust. Cash is collected for the beneficiaries of the trust by leasing lands for grazing, agriculture, commercial use, oil and gas drilling, mining, and other surface and subsurface activities. In addition to money collected from rental of State Trust Lands, the State Land Office receives royalties from the extraction and sale of minerals, as well as principal and interest from land sales. Proceeds from land sales and royalties are deposited into the Land Grant Permanent Fund of the State of New Mexico (also known as the Permanent School Fund). The majority of the Land Grant Permanent Fund is invested, not spent, and the earned income along with original royalties are distributed to the proper beneficiaries.

Financial Reporting Entity

The State Land Office is part of the primary government of the State of New Mexico, and its financial data should be included with the financial data of the State of New Mexico. All of the programs that are administered and/or controlled by the State Land Office have been included. No entities were noted that should be considered component units of the State Land Office. The accounting policies of the State Land Office conform to accounting principles generally accepted in the United States of America as applicable to governmental entities.

Basic Financial Statements

The basic financial statements include both government-wide (based on the State Land Office as a whole) and fund financial statements. The reporting model focus is on either the State Land Office as a whole or major individual fund (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental activities. In the government-wide statement of net position, the governmental activities column is presented on a consolidated basis by column, and is reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

State of New Mexico Commissioner of Public Lands Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

The government-wide statement of activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating, and capital grants. The program revenues must be directly associated with the function. Program revenues in the statement of activities consist of land royalties, lease and rental income from lands held by the State Land Office and the distributions to beneficiaries. The State Land Office includes only one function (general government). Interfund balances have been eliminated in the government-wide financial statements.

This government-wide focus is more on the sustainability of the State Land Office as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting.

This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate the State Land Office's actual financial activity in relation to the budget or fiscal plan.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund-based financial statements into the governmental column on the governmental-wide presentation.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the State Land Office first uses restricted resources then unrestricted resources.

Fund Accounting

The accounts of the State Land Office are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The following fund types are used by the State Land Office:

Governmental Funds

General Fund (SHARE Fund 09800) – The Land Maintenance Fund is the general operating fund of the State Land Office and it is used to account for the general operations of the State Land Office in carrying out its specific functions. Sources of revenue are provided by other state funds, interest income, other income, and lease and rental income, as forecasted to meet the budgetary needs. The fund does not revert to the State general fund per section NMSA 1978 19-1-1 but any additional funds are reapportioned to the beneficiaries at the end of the year.

State of New Mexico Commissioner of Public Lands Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Special Revenue Funds

Special revenue funds are used to record inflows that must be used for a specified purpose. The special revenue funds of the State Land Office are classified as such because they serve as clearing accounts for payments of resources that are restricted or committed to the specified beneficiaries. The special revenue funds of the State Land Office are:

Oil and Gas Royalty Fund (SHARE Fund 26400) – The Oil and Gas Royalty Fund is a collection and clearing account for royalties. Distributable royalties recognized as land royalties each month are transferred to General Fund. Simultaneously, the State Land Office distributes these proceeds to the Land Grant Permanent Fund.

The royalties presented as undistributed receipts in the fund balance sheet represent royalty payments received as advances and amounts held in suspense but not yet allowed to be distributed and recognized as revenue.

Land Suspense Fund (SHARE Fund 77700) – The Land Suspense Fund is used as a collection and clearing account for State Land Office receipts. Lease and rental income, interest on land contracts, filing fees, copy fees, interest on cash deposits, and interest assessments are collected in this fund and recognized as revenue when they are distributable and transferred to the general fund for State Land Office operations or distribution to the beneficiaries.

The revenue is made available for the State Land Office budgeted operating expenses. The excess of revenue over operating expenses is then transferred to the beneficiaries at the end of the fiscal year. Sales expense income is recorded in the Sales Expense Fund. Filing fees, copy fees, and interest on cash deposits are transferred to the Land Maintenance Fund.

Undistributed receipts included in “due to beneficiaries” on the balance sheet are principally comprised of monies received prior to the authorized distribution dates and amounts held in suspense. Any distribution would be made after all operating costs are defrayed and a determination of payment is made.

Royalty Advance Payment Fund (SHARE Fund 51400) – The Royalty Advance Payment Fund is a collection account for advance royalty payments made in accordance with Sections 19-10-56 through 19-10-60 NMSA 1978 and related investment income on behalf of beneficiaries.

Sales Expense Fund (SHARE Fund 77600) – The Sales Expense Fund is an imprest clearing account for the purpose of paying, as required by state law, expenses of land sales. When a sale is completed, the related sales expense is initially accounted for in the Land Suspense Fund, and then reimbursed to the Sales Expense Fund.

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

STL Restoration and Remediation Fund (SHARE Fund 68210) – The STL Restoration and Remediation Fund was created to utilize 1% of Land Maintenance Fund Revenue for the purpose of remediation and restoration projects on state trust land under Chapter 24 of the Laws of New Mexico 2017. Amounts collected in excess of \$5,000,000 will revert to State Land Office beneficiaries.

Basis of Accounting

The government-wide financial statements are presented on an accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. The governmental funds in the fund financial statements are presented on a modified accrual basis.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State Land Office considers revenues to be available if they are collected within 60 days from the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

The annual general appropriation act established the modified accrual basis of accounting for governmental funds in accordance with the Manual of Model Accounting Practices issued by the New Mexico Department of Finance and Administration (DFA) as the budgetary basis of accounting for the State of New Mexico. The change in policy resulted in the recognition of budgetary control from a fiscal year to an appropriation period. Under the budgetary basis, prior year encumbrances allowed for money to be expended in one fiscal year, while charging the expenditure to another year's budget. Under the new policy, as long as the appropriation period has not lapsed, and a budget has been approved by the New Mexico Department of Finance and Administration, an encumbrance can be charged against that budget. However, when the appropriation period has lapsed, so does the authority for the budget.

In applying the "susceptible to accrual" concept to inter-governmental revenues pursuant to GASB 33, the provider should recognize liabilities and expenses, and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

Budgetary Data

The state legislature approves the State Land Office's annual budget. Legal compliance is monitored through the establishment of an annual budget. Annual budgets are adopted each fiscal year for the general fund. Expenditures may not legally exceed appropriations at the object expenditure classification level. Budget amendments require approval by the State's Budget Division of DFA.

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Unexpended and unencumbered amounts in the general fund lapse at year-end and are reapportioned to beneficiaries in the same ratio as distributions to beneficiaries from the land suspense fund per NMSA 1978 19-1-13.

The budgetary legal authorization to incur obligations is on a basis that differs from the basis of accounting required by generally accepted accounting principles (GAAP) for the general fund and the special revenue funds.

The budget is prepared on a modified accrual basis and may include encumbrances for multiple year appropriations in fund expenditures (commitments for the expenditure of monies relating to unperformed contracts of orders for goods and services). GAAP includes accrued expenditures but does not include encumbrances in fund expenditures. Per the annual general appropriation act, the budgetary basis is modified accrual. However, there is a statutory exception. The budget is adopted on the modified accrual basis of accounting except for the accounts payable accrued at the end of the fiscal year that are not paid by the statutory deadline. Those accounts payable that do not get paid timely must be paid out of the next year's budget.

The State Land Office is required to submit a budget report for the general fund to the New Mexico Department of Finance and Administration and the Legislative Finance Committee by September 1 of each year. The report submitted by the State Land Office also details revenues and expenditures or expenses for the preceding year.

The DFA makes recommendations and adjustments to the appropriation request which becomes the governor's proposal to the legislature. The Legislative Finance Committee holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the legislature.

The recommended appropriation proposals from both the DFA and the Legislative Finance Committee are presented to the legislature for approval of the final budget plan.

All subsequent budget transfers and increases must be authorized by the Director of the State Budget Control Division. The budget has been amended for the year ended June 30, 2021.

Legal budget control for expenditures and encumbrances is by appropriation unit.

Cash and Investments

Cash is deposited by the State Land Office into its accounts with the State Treasurer. The balances of these accounts are then pooled and invested by the State Treasurer.

Funds in the Royalty Advance Payment Fund are invested in the New Mexico State Investment Council (NMSIC) equity pools (Large Cap Active and Large Cap Index pools) and fixed income investments pool (Core Bonds pool). Investments in these external investment pools are carried at market value in accordance with GASB No. 72, *Fair Value Measurement and Application*.

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

The constitution and statutes of the State of New Mexico place certain restrictions on investments which may be held by the Royalty Advance Payment Fund. The purpose of these restrictions is to minimize risk within the portfolio.

The State Land Office follows GASB No. 40, *Deposit and Investment Risk Disclosures*. Per GASB No. 40, “the Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, foreign currency risk, and also requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates as well as deposit and investment policies related to the risks identified in the statement.”

Land Royalties, Royalties Receivable and Interest Assessments Receivables

Land royalties are recognized when the oil and gas are extracted from the Trust Land and available for distribution. Interest assessments are recorded when royalty payments made are past their due date. Interest assessments are presented net of the allowance. An allowance is established for 50% of all assessments that are over 5 years past due.

Rental Income and Other State Funds

Rental income and other state funds are recognized when earned and available for distribution to beneficiaries or for use by the general fund.

Revenue Recognition

Land royalties and rental income are recognized when earned and available for distribution. During fiscal 2021, the State Land Office changed its accounting for these revenues and began recognizing the income for all revenue sources, which in previous years, was recognized by the NMSIC for royalties. This will provide more clarity with regard to the presentation of all revenue earned by the State Land Office.

Capital Assets

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Land trades of trust land are valued at the fair value as of the date of acquisition. Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Effective July 1, 2006, assets are capitalized by the State Land Office if the cost is more than \$5,000. Information Technology Equipment including software is being capitalized and included in data processing in accordance with NMAC 2.20.1.9 C (5). Other costs incurred for repairs and maintenance are expensed as incurred.

Estimated useful life is management’s estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the following estimated useful lives:

Buildings and library	20 – 40 years
Furniture, fixtures, and equipment	3 – 10 years
Data processing	6 – 10 years
Automobiles	5 years

State of New Mexico Commissioner of Public Lands Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Accrued Leave

Vacation and sick leave earned and not taken is cumulative; however, upon termination of employment, sick pay up to 600 hours is forfeited and vacation is limited to 240 hours. Vacation leave up to the maximum of 240 hours is payable upon separation from service at the employee's current hourly rate. Sick leave is payable semi-annually to qualified employees at a rate equal to 50% of their hourly rate, not to exceed 120 hours each semi-annual period. Upon retirement, sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50% hourly rate. The compensated absences payable has been valued using current pay levels. The amount that would normally be liquidated with expendable available financial resources has been recorded as a current liability in the appropriate funds.

Interfund Transactions

During the course of normal operations, the State Land Office has transactions between funds. The accompanying financial statements reflect such transactions as operating transfers.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

The State Land Office, as a "State Agency" defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the State of New Mexico. The State Land Office pays annual premiums to the Risk Management Division for coverage provided in the following areas:

1. Liability and civil rights protection for claims made by others against the State of New Mexico;
2. Coverages to protect the State of New Mexico's property and assets; and
3. Fringe benefit coverages for State of New Mexico employees.

At June 30, 2021, the State Land Office had no claims for which the Risk Management Division has returned as not covered that would become the responsibility of the State Land Office. See Note 12 on contingencies.

Fund Balance and Net Position

In the governmental fund financial statements, fund balances are classified as non-spendable, restricted, or unrestricted (committed, assigned, or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by outside entities. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or in some cases by legislation.

State of New Mexico Commissioner of Public Lands Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

The fund balances include amounts that represent: 1) Restricted purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, none of the restricted special appropriations and capital project appropriations were from the State General Fund; 2) Committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by outside entities; 3) Assigned purposes, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. A summary of the nature and purpose of these reserves by fund type at June 30, 2021, follows:

Nonspendable – Petty Cash. This reserve was created for imprest petty cash funds.

Spendable – Restricted for Refunds. This reserve was created for refunds, per NMSA 1978 Chapter 19 Public Lands, Section 19-7-62. The amount restricted for refunds is \$500,000.

Spendable – Restricted for ONGARD Replacement. This reserve was created to replace the oil and natural gas administration and revenue database system per Laws of 2018, Chapter 73, Section 7, Item 19. Reauthorized per Laws of 2020, Chapter 83, Section 19.

Spendable – Restricted for ONGARD Replacement. This reserve was created to continue the replacement of the oil and natural gas administration and revenue database system per Laws of 2020, Chapter 83, Section 7, Item 20.

Spendable – Restricted for GIS Imaging. This reserve was created to purchase and install hardware and software for satellite imagery analytics per Laws of 2020, Chapter 83, Section 7, Item 18.

Spendable – Restricted for Capital Projects. This reserve was created to plan, design, excavate, and replace the parking lot at the State Land Office building per Laws of 2018, Chapter 68, Section 125. Reauthorized per Laws of 2019, Chapter 280, Section 97.

Spendable – Restricted for Capital Projects. This reserve was created replace the electrical system at the State Land Office building per Laws of 2019, Chapter 277, Section 56.

Spendable – Restricted for Capital Projects. This reserve was created to plan, design, upgrade, repair, and replace the heating ventilation and air conditioning system at the State Land Office building per Laws of 2018, Chapter 80, Section 47, Item 1.

Spendable – Restricted for Capital Projects. This reserve was created to plan, design, upgrade, repair, and replace the parking lot and sidewalks at the State Land Office building per Laws of 2018, Chapter 80, Section 47, Item 2.

Spendable – Restricted for Capital Projects. This reserve was created for the continued upgrade and replacement of the electrical distribution system at the State Land Office building, per Laws of 2015, Chapter 3, Section 81, Item 2. Reauthorized per Laws of 2019, Chapter 280, Section 96.

State of New Mexico Commissioner of Public Lands Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Spendable – Restricted for Capital Projects. This reserve was created to plan, design, and install sprinklers and replace the ceiling tiles at the State Land Office Building per Laws of 2014, Chapter 66, Section 48, Items 2. Reauthorized per Laws of 2019, Chapter 280, Section 97.

Spendable – Restricted for Capital Projects. This reserve was created to plan, design and upgrade the Land Income Management System to create automatic billing for lessees per Laws of 2021, Chapter 2, Section 7.

Spendable – Restricted for Landscape Planning. This reserve was created from a private grant awarded by the Hewlett Foundation to develop, employ, and institutionalize landscape-scale planning to achieve better long-term conservation outcomes for state trust land. The remaining balance at June 30, 2021 was \$50,903.

Spendable – Committed for Nut Grassland. This reserve was created from an agreement to study long-term environmental impacts of a solar facility on the Nutt Grassland.

Spendable – Committed for STL Restoration & Remediation Fund. This reserve was created for restoration and remediation of state trust lands per Laws of 2017, Chapter 24.

Spending Policy

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the agency's policy to use restricted resources first. When expenditures/expenses are incurred for purposes, for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the state's policy to spend committed resources first.

Note 2 – Interest in the State General Fund Investment Pool

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

The comprehensive cash reconciliation model which compares aggregated agency claims on the SGFIP to the associated resources held by the State Treasurer's Office has been completed for fiscal year 2021. This process has been previously reviewed and is analyzed annually, by the auditor's performing audits of the General Fund, the Department of Finance and Administration, and the State of New Mexico's Annual Financial Report. These reviews have deemed the process sound and the Department fully compliant with reconciliation requirements. The purpose of this memo is to provide the following assertions:

- 1) As of June 30, 2021, resources held in the pool were equivalent to the corresponding business unit claims on those resources
- 2) All claims as recorded in SHARE shall be honored at face value.

State of New Mexico Commissioner of Public Lands
Notes to Financial Statements

Note 2 – Interest in the State General Fund Investment Pool (continued)

As of June 30, 2021, the State Land Office had the following cash and investment in the State General Fund Investment Pool:

Account Name/Type	Account Number	Balance Per Financial Statements
GOVERNMENTAL FUNDS		
General fund		
On deposit with the State Treasurer		
General fund	539-09800	\$ 13,450,394
Total - general fund		<u>13,450,394</u>
Special revenue funds		
On deposit with the State Treasurer		
Land suspense fund	539-77700	23,259,429
Oil and gas royalty fund	539-26400	166,849,048
Royalty advance payment fund	539-51400	1,256,829
Sales expense fund	539-77600	63,131
STL remediation and restoration fund	539-68210	<u>2,864,923</u>
Total - special revenue funds		<u>194,293,360</u>
Total on deposit with the State Treasurer		<u>\$ 207,743,754</u>

There were no differences between STO and reconciled cash balances for the State Land Office as of June 30, 2021.

Interest Rate Risk – The STO 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 STO's pools are not rated.

The State Land Office's cash funds, other than petty cash and change funds, are deposited into its accounts with the STO, which are pooled and invested by STO or deposited by the State Land Office with local banks as cash deposits to the credit of the STO.

Provisions of the New Mexico State Public Money Act (Article 10, Sections 6-10-1 to 6-10-63 NMSA 1978) require a bank to be qualified to receive deposits of public monies by depositing collateral security or by giving bond at a minimum level of 50 percent to collateralize governmental cash deposits when they exceed the amounts of depository insurance by the federal deposit insurance corporation (FDIC) or the national credit union administration (NCUA).

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 2 – Interest in the State General Fund Investment Pool (continued)

The STO financial statements disclose the type of purchased security investments held (i.e., bond, note, Treasury bill, etc.), categories of risk involved, security number, Committee on Uniform Securities Identification Procedures (CUSIP) identification number, fair market value, maturity date of securities held, name of the custodian, and the place of safekeeping for all "collateral" pledged to secure state agency cash deposits. The bank balances as of June 30, 2021, are entirely insured or collateralized with securities held by the agent in the bank's name.

Cash in Banks consists of amounts temporarily deposited in local bank accounts statewide prior to being "swept" nightly into the department's cash accounts at the STO.

Petty cash of \$400 was held by the State Land Office for payment of emergency business expenses requiring immediate payment or purchase of goods or services essential to perform the agency mission.

As of June 30, 2021, the State Land Office's cash balances have been reconciled to the State Land Office's portion of the SGFIP.

For additional disclosure information regarding cash held by the STO, the reader should see the separate audit report for the STO for the fiscal year ended June 30, 2021.

Note 3 – Investments

Investments in the Royalty Advance Payment Fund are held in the equity and fixed income pools managed by the NMSIC. The market value of the units held in the pools is \$24,418,609. This represents the Royalty Advance Payment Fund's proportionate share of the quoted market prices of the securities held in the pools. The pools invest in equity securities, U.S. Treasury and federal agency notes, industrial and utility bonds and notes, and overnight repurchase agreements. The investments held by the NMSIC for the State Land Office are uninsured and unregistered and there is no regulatory oversight on the pools.

The State Land Office accounts for its investments in accordance with GASB No. 72, *Fair Value Measurement and Application*, which establishes fair value standards for certain investments held by governmental entities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investments are measured at fair value on a recurring basis which is based upon the State Land Office's share of NMSIC's pooled investments. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the State Land Office has the ability to access.

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 3 – Investments (continued)

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used as of June 30, 2021.

The State Land Office invests in three investment pools offered by the NMSIC. Each pool is comprised of units of participation of unlimited quantity. The pools are held in NMSIC's name. No unit in the pool has priority or preference over any other unit and represents an equal beneficial interest in the pool. The valuation the State Land Office's units in the investment pool is provided by the NMSIC on a monthly basis and represents the fair market value as of that date. Therefore, management has determined that all the investments are measured at net asset value as a practical expedient (NAV practical expedient).

The table below summarizes the investments valued at NAV practical expedient and other pertinent liquidity information:

Investments Measured at NAV Practical Expedient	Fair Value June 30, 2021	Redemption Frequency	Redemption Notice Period
Large Cap Active Pool	\$ 10,572,267	Monthly	5 business days
Large Cap Index Pool	9,165,617	Monthly	5 business days
Core Plus Bonds Pool	4,680,725	Monthly	5 business days
	<u>\$ 24,418,609</u>		

Interest Rate Risk – Investment interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to change in market interest rates. The State Land Office has exposure to interest rate risk by its investment in the Core Bond holdings with the NMSIC.

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 3 – Investments (continued)

Investment Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the State Land Office will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Mutual funds, external investment pools, and securities underlying reverse repurchase agreements are not exposed to custodial credit risk.

The State Land Office does have a custodial risk policy for Investments, which requires collateral in an amount greater than or equal to 50% of the deposit not insured by federal insuring agencies.

Concentration of Credit Risk – Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer that represent 5% or more of all total investments, including components unit investments, are considered to be exposed to concentrated credit risk and are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. Currently, the State Land Office does not have a policy to limit its exposure to concentrated credit risk.

A copy of the separately issued financial statements can be obtained from the NMSIC.

Note 4 – Receivables

Interest assessment receivables in the Land Suspense Fund totaling \$2,616,805 represent uncollected amounts that have been billed by the State Land Office for late payment of royalties due.

Management has recorded an allowance of \$175,823 at June 30, 2021 for interest assessment receivables. Some interest assessments may be abated.

The State of New Mexico collects a royalty based upon the value of oil and gas production on state lands. Remitters of oil and gas royalties to the state report the royalties due, plus property identification (lease numbers) and production volumes in one of two ways: (1) remitters using paper reports send those reports and royalty cash payments to the State Land Office for purposes of editing, reconciliation, and distribution to beneficiaries; or (2) remitters using electronic reporting send the information directly to the State Land Office via tape or electronic data interchange (EDI) for ONGARD/RAPS processing purposes, with cash payments going directly to the State Land Office royalty account.

State of New Mexico Commissioner of Public Lands
Notes to Financial Statements

Note 5 – Capital Assets

A summary of capital assets and changes in capital assets are as follows:

	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 252,152	\$ -	\$ -	\$ 252,152
Trust land	49,847,876	-	-	49,847,876
Construction in progress	5,474,991	3,869,750	-	9,344,741
Total	<u>55,575,019</u>	<u>3,869,750</u>	<u>-</u>	<u>59,444,769</u>
Capital assets being depreciated				
Buildings and library	5,658,943	-	-	5,658,943
Furniture, fixtures, and equipment	474,224	-	(8,847)	465,377
Data processing	5,816,433	-	-	5,816,433
Automobiles	1,049,802	69,430	-	1,119,232
Total	<u>12,999,402</u>	<u>69,430</u>	<u>(8,847)</u>	<u>13,059,985</u>
Total capital assets	<u>68,574,421</u>	<u>3,939,180</u>	<u>(8,847)</u>	<u>72,504,754</u>
Less accumulated depreciation				
Buildings and library	4,651,885	155,175	-	4,807,060
Furniture, fixtures, and equipment	404,462	26,473	(8,847)	422,088
Data processing	2,777,537	602,726	-	3,380,263
Automobiles	731,839	113,194	-	845,033
Total	<u>8,565,723</u>	<u>897,568</u>	<u>(8,847)</u>	<u>9,454,444</u>
Net capital assets	<u>\$ 60,008,698</u>	<u>\$ 3,041,612</u>	<u>\$ -</u>	<u>\$ 63,050,310</u>

Construction in progress consists of the expenditures expended for the replacement of the ONGARD system. Land, trust land, and construction in progress are not subject to depreciation. Depreciation expense for the agency amounted to \$897,568 and is considered a general governmental expense.

State of New Mexico Commissioner of Public Lands
Notes to Financial Statements

Note 6 – Compensated Absences

The following represents changes in compensated absences for the year ended June 30, 2021:

	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021	Due Within One Year
Compensated absences	\$ 681,533	\$ 624,941	\$ 539,569	\$ 766,905	\$ 766,905

The amount of compensated absences is calculated by multiplying the vested hours by the pay rate at year-end plus applicable payroll taxes. In the past, compensated absences have been paid out of the general fund.

Note 7 – Due from and Due to Other Funds

Due from and due to other funds as of June 30, 2021 consist of the following:

Due From Other Funds	Fund No.	Amount	Due to Other Funds	Fund No.	Amount
Oil and Gas			Royalty Advance		
Royalty Fund	26400	\$ 9,050,000	Payment Fund	51400	\$ 9,050,000
General Fund	09800	239,471,889	Oil and Gas		
Land Suspense Fund	77700	518,669	Royalty Fund	26400	239,408,758
Total		<u>\$ 249,040,558</u>	Sales Expense Fund	77600	63,131
			General Fund	09800	518,669
			Total		<u>\$ 249,040,558</u>

This \$9,050,000 represents the cash balance for the Royalty Advance held by the NMSIC for investment. Royalty Advance consists of funds submitted by oil and gas royalty remitters to be held on deposit. All royalties are paid when cleared from suspense and the principal investment will be paid to beneficiaries earning royalties upon liquidation. Investment earnings are credited to the General Fund and used to support the agency.

Note 8 – Due from and Due to Other Agencies

Due from other state agencies at June 30, 2021 consisted of \$19,422 (State Land Office 77700) due for a lease payment that was settled in October 2021 from Spaceport America (Fund 87100).

Due to other state agencies at June 30, 2021 consisted of \$232,408,758 owed to NMSIC (Fund 60100) for May 2021 and June 2021 oil and gas royalty sales and distribution (State Land Office 09800). These amounts were settled in August and September 2021.

State of New Mexico Commissioner of Public Lands Notes to Financial Statements

Note 9 – Pension Plan – New Mexico Public Employees Retirement Association

Plan Description

Substantially all of the New Mexico State Land 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, NM 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 9.42% (ranges from 6.28% to 18.15% depending upon the plan, i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer) of their gross salary. The State Land Office is required to contribute 17.74% (ranges from 7.0% to 25.72% depending upon the plan) of the gross covered salary. The contribution requirements of plan members and the State Land Office are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The State Land Office's contributions to PERA for the fiscal years ending June 30, 2021, 2020, and 2019 were \$1,818,211, \$1,710,665, and \$1,412,115, respectively, which equal the amount of the required contributions for each fiscal year.

The State Land Office, 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 PERA. Overall, total pension liability exceeds PERA's net position resulting in a net pension liability.

The State has determined the State's share of the net pension liability to be a liability of the state as a whole, rather than any agency or department of the State and will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Annual Comprehensive Financial Report of the State of New Mexico.

Information concerning the new 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 Annual Comprehensive Financial Report 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 Commissioner of Public Lands

Notes to Financial Statements

Note 10 – Post-Employment Benefits – State Retiree Health Care Plan

Plan Description

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

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

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico Annual Comprehensive Financial Report for the year ended June 30, 2021 and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico 87501.

Funding Policy

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

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 Commissioner of Public Lands
Notes to Financial Statements

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4, or 5; municipal fire member coverage plan 3, 4, or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2021, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2021, the statute required each participating employer to contribute 2% of each participating employee's annual salary; each participating employee was required to contribute 1% of their salary.

The State Land Office's contributions to the RHCA for the years ended June 30, 2021, 2020, and 2019 were \$205,160, \$198,454, and \$166,228, respectively, which equal the required contributions for each year.

Note 11 – Lease Commitments

The State Land Office leases certain office space and equipment from various vendors under operating leases. The expenditures for leases during the year ended June 30, 2021 totaled \$170,667. Future minimum lease payments under these operating leases are as follows:

Year Ending June 30

2022	\$	161,550
2023		162,254
2024		163,751
2025		169,429
		<hr/>
	\$	656,984
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State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 12 – Contingencies

The State of New Mexico (State) is a titleholder in trust of millions of federally granted acres in New Mexico. As a result, it is possible that the State of New Mexico could become liable for the cleanup of contaminated sites on state lands or for the reimbursement to federal or state environmental agencies for the cost of cleanup. As of June 30, 2021, no such claims have been asserted by either federal or state environmental agencies. According to management of the State Land Office, if such a claim were filed, the State would have the right to seek contribution from operators, arrangers, and transporters at the site. In addition, the state might be able to reach a settlement agreement with the environmental agency and allow the State to pursue its claims against the other potentially responsible parties. As holder of the legal title to the lands, the State of New Mexico alone could be liable for the costs of clean-up in the absence of any other potentially responsible party. However, there is no existing case law to determine if this liability would be the responsibility of the State of New Mexico or the assets of the trust whose beneficiaries hold equitable title to the public lands (i.e., State Land Office).

During the course of normal operations, the State Land Office has various claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of general counsel and management that the likelihood is remote of any potential liabilities to be material to the financial statements as of June 30, 2021.

Certain impacts from the COVID-19 outbreak may have a significant negative impact on the State Land Office's operations and ability to fulfill its mission. These circumstances may continue for an extended period of time and may have an adverse impact on economic and market conditions. The ultimate economic fallout from the pandemic, and the long-term impact on economies, markets, industries and individual companies, are not known. The extent of the impact to the financial performance and the operations of the State Land Office will depend on future developments, which are highly uncertain and cannot be predicted.

Note 13 – Joint Powers Agreements

Management of the WIPP Withdrawal Area

U.S. Department of Energy (DOE), New Mexico Department of Game and Fish (DGF), the New Mexico Energy, Minerals and Natural Resources Department (EMNRD), the New Mexico Office of Cultural Affairs (OCA), and the State Land Office entered into the "Agreement" pursuant to the New Mexico Joint Powers Agreement Act, Section 11-1-1 et seq NMSA 1978, the Department of Energy Organization Act, P.L. 95-94, the Energy Reorganization Act of 1974, P.L. 93-438 and the Economy Act of 1932 as amended by P.L. 98-216 on June 26, 1997. The purpose of this agreement is to encourage direct communication among the parties and other appropriate federal and state agencies involved in managing the resources within, or activities impacting the areas adjacent to, the WIPP withdrawal area. It sets forth cooperative arrangements and procedures for addressing land management within and adjacent to the withdrawal area.

State of New Mexico Commissioner of Public Lands Notes to Financial Statements

Note 13 – Joint Powers Agreements (continued)

To Distribute Federal Grant Funds

The New Mexico Energy Minerals & Natural Resources Department (EMNRD) and State Land Office entered into the “Agreement” pursuant to the New Mexico Joint Powers Agreement Act, NMSA 1978 ss 11-1-1; the Forest Conservation Act, NMSA ss 68-2-1 through 68-2-33; and the Federal Cooperative Forestry Assistance Act of 1978, P.L. 95-313 on November 6, 2003. The purpose of this agreement is for administrative efficiency so that several projects can be carried out through a single program; whereas, EMNRD and the State Land Office are public agencies and are authorized by law to enter into this Joint Powers Agreement. EMNRD is authorized to enter into agreements to protect forests and provide forest management technical assistance including forest health and from time to time receives funds from the USDA, Forest Service (USDA) under the Wildland Urban Interface and Hazardous Fuel Reduction Grant Programs to mitigate the threat of wildland fires and improve forest health. EMNRD shall reimburse the State Land Office out of federal grant funds for all reimbursable costs incurred under this Agreement for materials and labor in amounts not to exceed the limit set in the Project Work Plan.

To Conduct Resource Management Activities in the Luera Mountains

The State Land Office and the New Mexico Energy, Minerals and Natural Resources Department (EMNRD) entered into the “Agreement” pursuant to the New Mexico Joint Powers Agreement Act, NMSA 1978 ss 11-1-1 to 11-1-7 NMSA 1978 on April 15, 1993. The purpose of this agreement is to provide to the Commissioner the resources and expertise of the EMNRD’s State Forester for the purpose of protecting and conserving the forested areas of the said state trust lands as contemplated by Section 68-2-11 NMSA1978.

Note 14 – Special Appropriations

Laws of 2018, Chapter 73, Section 7, Item 19, the State Land Office was appropriated \$5,000,000 to continue the replacement of the oil and natural gas administration and revenue database system. The unexpended or unencumbered balance remaining of \$199,241 at June 30, 2021 reverted to the beneficiaries.

Laws of 2020, Chapter 83, Section 7, Item 20, the State Land Office was appropriated \$1,850,000 to continue the replacement of the oil and natural gas administration and revenue database royalty administration functionality. The remaining balance on this appropriation was \$1,813,226 at June 30, 2021. All unexpended or unencumbered balance remaining at the end of fiscal year 2022 shall revert to the beneficiaries.

Laws of 2020, Chapter 83, Section 7, Item 18, the State Land Office was appropriated \$1,450,000 to purchase and install hardware and software for satellite imagery analytics. The remaining balance on this appropriation was \$910,662 at June 30, 2021. All unexpended or unencumbered balance remaining at the end of fiscal year 2022 shall revert to the beneficiaries.

State of New Mexico Commissioner of Public Lands Notes to Financial Statements

Note 15 – Capital Projects

Laws of 2014, Chapter 66, Section 48, Item 2, the State Land Office was appropriated \$360,000 to replace the ceiling and install a sprinkler suppression system. The period of time for expending the appropriation is through fiscal year 2018. Per Laws of 2017, Chapter 133, Section 111, the appropriation was reauthorized for parking lot repairs. Per Laws of 2018, Chapter 68, Section 125, the appropriation was reauthorized through fiscal 2019. Per Laws of 2019, Chapter 280, Section 97, the appropriation was reauthorized through fiscal 2021. Per Laws of 2021, Chapter 296, Section 77 was reauthorized through fiscal 2023. The remaining balance on this appropriation was \$295,669 as of June 30, 2021. All unexpended or unencumbered balance remaining at the end of fiscal 2023 shall revert to the beneficiaries.

Laws of 2015, Chapter 3, Section 81, Item 2, the State Land Office was appropriated \$350,000 to replace the electrical distribution system. The period of time for expending the appropriation is through fiscal 2019. Per Laws of 2019, Chapter 280, Section 96 was reauthorized through fiscal 2021. Per Laws of 2021, Chapter 296, Section 76 was reauthorized through fiscal 2023. The remaining balance on this appropriation was \$8,564 as of June 30, 2021. All unexpended or unencumbered balance remaining at the end of fiscal 2023 shall revert to the beneficiaries.

Laws of 2018, Chapter 80, Section 47, Item 1, the State Land Office was appropriated \$180,000 to plan, design, upgrade, repair, and replace the heating ventilation and air conditioning system at the State Land Office Building. The period of time for expending the appropriation is through fiscal 2022. The remaining balance on this appropriation was \$30,943 as of June 30, 2021. All unexpended or unencumbered balance remaining at the end of fiscal 2022 shall revert to the beneficiaries.

Laws of 2018, Chapter 80, Section 47, Item 2, the State Land Office was appropriated \$40,000 to plan, design, upgrade, repair, and replace the parking lot and sidewalks at the State Land Office Building. The period of time for expending the appropriation is through fiscal 2022. The remaining balance on this appropriation was \$24,456 as of June 30, 2021. All unexpended or unencumbered balance remaining at the end of fiscal 2022 shall revert to the beneficiaries.

Laws of 2019, Chapter 277, Section 56, the State Land Office was appropriated \$390,000 to replace the electrical system at the State Land Office Building. The period of time for expending the appropriation is through fiscal 2023. The remaining balance on this appropriation was \$250,238 as of June 30, 2021. All unexpended or unencumbered balance remaining at the end of fiscal year 2023 shall revert to the beneficiaries.

Laws of 2020, Chapter 81, Section 86, the State Land Office was appropriated \$650,000 to replace the electrical system at the State Land Office Building. The period of time for expending the appropriation is through fiscal 2024. The remaining balance on this appropriation was \$650,000 as of June 30, 2021. All unexpended or unencumbered balance remaining at the end of fiscal year 2024 shall revert to the beneficiaries.

State of New Mexico Commissioner of Public Lands
Notes to Financial Statements

Note 15 – Capital Projects (continued)

Laws of 2021, Section 7, Item 10, the State Land Office was appropriated \$548,000 to develop an automated billing process for lessees. The period of time for the appropriation is through fiscal 2023. The remaining balance on this appropriation was \$548,000 as of June 30, 2021. All unexpended or unencumbered balance remaining at the end of fiscal 2023 shall revert to the beneficiaries.

Note 16 – Governmental Fund Balances

The State Land Office’s fund balances represent restricted purposes, which include balances that are legally restricted for specific purposes, and committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by outside entities.

A summary of the nature and purposes of these reserves by fund type as of June 30, 2021 follows:

Account Name/Type	Nonspendable	Restricted and Committed Purposes
General Fund		
Petty Cash	\$ 400	\$ -
Restricted - Refunds - NMSA 1978 Section 19-7-62	-	500,000
Restricted - ONGARD Replacement - L20, C83, S007, I020	-	1,813,226
Restricted - Satellite Imagery, L20, C83, S007, I018	-	910,662
Restricted - Capital Projects Replace Ceiling Tiles	-	650,000
Restricted - AR System L21 C137 S007 I010	-	548,000
Restricted - Capital Projects Parking Lot	-	295,669
Restricted - Capital Projects Electrical System	-	250,238
Restricted - Landscape Planning-Hewlett Grant	-	50,903
Restricted - Capital Projects Heating Ventilation and Air Conditioning	-	30,943
Restricted - Capital Projects Parking Lot	-	24,456
Restricted - Capital Assets Electrical System	-	8,564
Committed - Nutt Grassland - Other Gifts/Gants	-	23,012
STL Restoration and Remediation Special Revenue Fund		
Restricted - Land Restoration & Remediation Projects	-	2,864,923
	<u>\$ 400</u>	<u>\$ 7,970,596</u>

Note 17 – Conflict of Interest

The State Land Office maintains a Conflict of Interest Policy which applies to all the executive staff, management, and staff employees. The Policy requires each person to whom the policy applies to complete a disclosure statement which identifies a business or financial interest of that person which is planning to engage in a business transaction with the State Land Office or has engaged in a business transaction with the State Land Office.

State of New Mexico Commissioner of Public Lands
Notes to Financial Statements

Note 18 – New Accounting Standard

GASB Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the year ending June 30, 2022. The State Land Office has selected systems to assist in their compliance with the financial reporting of this Statement and is creating current accounting policies in anticipation for its effective date.

Supplementary Information

State of New Mexico Commissioner of Public Lands
Combining Balance Sheet – Governmental Nonmajor Funds
June 30, 2021

	STL Restoration and Remediation Fund 68210	Sales Expense Fund 77600	Land Suspense Fund 77700	Royalty Advance Payment Fund 51400	Total Nonmajor Funds
ASSETS					
Interest in the State General Fund Investment Pool	\$ 2,864,923	\$ 63,131	\$ 23,259,429	\$ 1,256,829	\$ 27,444,312
Due from other funds	-	-	518,669	-	518,669
Receivables					
Interest assessments, net	-	-	2,440,982	-	2,440,982
Due from other state agencies	-	-	19,422	-	19,422
Investments	-	-	-	24,418,609	24,418,609
TOTAL ASSETS	\$ 2,864,923	\$ 63,131	\$ 26,238,502	\$ 25,675,438	\$ 54,841,994
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ 1,804	\$ 1,804
Due to other funds	-	63,131	-	9,050,000	9,113,131
Undistributed receipts	-	-	26,238,502	16,623,634	42,862,136
TOTAL LIABILITIES	-	63,131	26,238,502	25,675,438	51,977,071
FUND BALANCES					
Restricted for special and capital appropriations	2,864,923	-	-	-	2,864,923
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,864,923	\$ 63,131	\$ 26,238,502	\$ 25,675,438	\$ 54,841,994

State of New Mexico Commissioner of Public Lands
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Nonmajor Funds
Year Ended June 30, 2021

	STL Restoration and Remediation Fund 68210	Sales Expense Fund 77600	Land Suspense Fund 77700	Royalty Advance Payment Fund 51400	Total Nonmajor Funds
REVENUES					
Rental income	\$ 651,207	\$ -	\$ 64,034,033	\$ -	\$ 64,685,240
Other state fees	-	-	2,096,426	-	2,096,426
Other income	-	25,086	-	-	25,086
Total revenues	<u>651,207</u>	<u>25,086</u>	<u>66,130,459</u>	<u>-</u>	<u>66,806,752</u>
EXPENDITURES					
Contractual services	-	-	-	-	-
Operating costs	-	25,086	-	-	25,086
Total expenditures	<u>-</u>	<u>25,086</u>	<u>-</u>	<u>-</u>	<u>25,086</u>
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	-	-	(66,130,459)	-	(66,130,459)
Distributions to beneficiaries	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(66,130,459)</u>	<u>-</u>	<u>(66,130,459)</u>
NET CHANGE IN FUND BALANCE	651,207	-	-	-	651,207
FUND BALANCE					
Beginning of year	<u>2,213,716</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,213,716</u>
End of year	<u>\$ 2,864,923</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,864,923</u>

Report of Independent Auditors 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*

Ms. Stephanie Garcia Richard
State of New Mexico
Commissioner of Public Lands

Mr. Brian Colón, Esq.
New Mexico State Auditor
Santa Fe, New Mexico

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, the aggregate remaining fund information, and the budgetary comparison for the general fund and major special revenue fund, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise State Land Office's basic financial statements, and have issued our report thereon dated November 1, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State Land Office's internal control over financial reporting (internal control) as a basis for designing 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 State Land Office's internal control. Accordingly, we do not express an opinion on the effectiveness of State Land 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 State Land Office's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

Mess Adams LLP

Albuquerque, New Mexico

November 1, 2021

State of New Mexico Commissioner of Public Lands
Schedule of Findings and Questioned Costs
June 30, 2021

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes No

Significant deficiency(ies) identified?

Yes None reported

Noncompliance material to financial statements noted?

Yes No

Section II – Financial Statement Findings

None

Section III – Findings in Accordance with 2.2.2 NMAC – Other

None

State of New Mexico Commissioner of Public Lands
Summary Schedule of Prior Audit Findings
June 30, 2021

No prior year audit findings noted.

State of New Mexico Commissioner of Public Lands
Exit Conference
June 30, 2021

An exit conference was held on October 28, 2021. During the meeting, the contents of this report were discussed with the following individuals:

State of New Mexico Commissioner of Public Lands (State Land Office)

Stephanie Garcia Richard	Commissioner of Public Lands
Sunalei Stewart	Deputy Commissioner of Public Lands
Selena Romero	Assistant Commissioner, Administrative Services
Margaret Sena	Assistant Commissioner, Accounting
Antonio Medina	Division Director of Accounting

Moss Adams LLP

Kory Hoggan	Engagement Partner
Aaron Hamilton	Assurance Senior Manager

The State Land Office is responsible for the contents of the financial statements. Moss Adams LLP assisted with the preparation of the financial statements.