

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

LA MERCED DEL PUEBLO DE CEBOLLETA

Financial Statements, Supplementary Information
and
Independent Auditor's Report

June 30, 2013

LA MERCED DEL PUEBLO DE CEBOLLETA

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LA MERCED DEL PUEBLO DE CEBOLLETA

List of Principal Officials

June 30, 2013

Board of Trustees

Lee Maestas	President
Frankie Garcia	Treasurer
William Hocker	Secretary
Onesimo Armijo	Member
Marianne Romero	Member

Independent Auditor's Report

Mr. Wayne A. Johnson, New Mexico State Auditor, and
The Board of Trustees
La Merced del Pueblo de Cebolleta
Seboyeta, New Mexico

Report on 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 La Merced del Pueblo de Cebolleta (Land Grant), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Land Grant'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.

Mr. Wayne A. Johnson, New Mexico State Auditor, and
The Board of Trustees
La Merced del Pueblo de Cebolleta
Seboyeta, New Mexico

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

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the Land Grant's legally separate component units. Accounting principles generally accepted in the United States of America require financial data for those component units to be reported with the financial data of the Land Grant's primary government unless the Land Grant also issues financial statements for the financial reporting entity that include the financial data for its component units. The Land Grant has not issued such reporting entity financial statements. As noted in finding 2007-011, the financial statements for the component units were not available to be audited. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net position, revenues, and expenses of the aggregate discretely presented component units are unknown and are not included in the Land Grant's financial statements.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the Land Grant, as of June 30, 2013, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on the Entity Wide and Governmental Fund Financial Statements and Footnotes

As noted in findings 2007-003, 2007-017, and 2007-021, the Land Grant's accounting records were insufficient to support the transactions in the accounting records. It was not possible to find support for many of the Land Grant's transactions. Because of the lack of supporting documentation, we were not able to perform an audit sufficient in scope to allow us to determine if the financial statements were materially correct.

In addition, this audit is being performed in August 2017 to June of 2018, five years after the close of the June 30, 2013 fiscal year. As part of our audit process we asked for transaction confirmations from entities for which the Land Grant transacted between July 1, 2006 and June of 2017. Many of the entities responded that they did not keep information that old and were unable to respond to the confirmation request. In addition, many confirmations were not returned at all. As a result, it is not possible to determine if material subsequent events may have occurred between June 30, 2013 and the date of this audit report. It was not practicable to extend our procedures sufficiently to ensure all material subsequent events have been disclosed in the notes to the financial statements.

Mr. Wayne A. Johnson, New Mexico State Auditor, and
The Board of Trustees
La Merced del Pueblo de Cebolleta
Seboyeta, New Mexico

In addition, current Board members have alleged that fraud has been committed by current and former Board members. The primary objective in performing a government audit is to serve the public interest by providing information used for oversight, accountability, transparency, and improvements of government programs and operations. We are not licensed to and do not practice law. We are not a law enforcement agency or prosecuting officer. We do not have power to subpoena records or witnesses to testify under oath. Therefore, it was not practicable to extend our procedures to prove or disprove the allegations of fraud. It was also not practicable to determine the impact of the alleged fraud on the financial statements if the fraud did occur. As a result of these allegations, the New Mexico Office of the State Auditor has designated the Land Grant for a special audit.

Qualified Opinions

In our opinion, except for the matters described in the “Basis for Qualified Opinion on the Entity Wide and Governmental Fund Financial Statements and Footnotes”, 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 Land Grant as of June 30, 2013, and the respective changes in financial, and the respective budgetary comparison for the general fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management’s discussion and analysis, that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions the Land Grant’s financial statements, the individual fund financial statements, and the budgetary comparisons. The schedules required by Section 2.2.2 NMAC, as listed in the Supplementary Information – Supporting Schedules section of the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Because of the significance of the matter described above in the Basis for Adverse Opinion on Aggregate Discretely Presented Component Units paragraph, it is inappropriate to, and we do not, express an opinion on the supplementary information referred to above.

Mr. Wayne A. Johnson, New Mexico State Auditor, and
The Board of Trustees
La Merced del Pueblo de Cebolleta
Seboyeta, New Mexico

The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government auditing standards*, we have also issued our report dated June 19, 2018 on our consideration of the Land Grant's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Land Grant's internal control over financial reporting and compliance.

Porch & Associates, LLC

Albuquerque, New Mexico
June 19, 2018

LA MERCED DEL PUEBLO DE CEBOLLETA
STATEMENT OF NET POSITION
June 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Cash	\$ 2,751,798
Investments	2,834,267
Accrued interest receivable	126
Noncurrent Assets	
Capital assets, not depreciated	6,864
Capital assets, net of accumulated depreciation	<u>1,389,213</u>
Total assets	<u><u>6,982,268</u></u>
LIABILITIES	
Current liabilities	
Accounts payable	29,906
Unearned revenue	460,000
Long-term liabilities	
Unearned revenue	<u>1,265,000</u>
Total liabilities	<u><u>1,754,906</u></u>
NET POSITION	
Net investment in capital assets	1,396,077
Unrestricted	<u>3,831,285</u>
Total net position	<u><u>\$ 5,227,362</u></u>

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

LA MERCED DEL PUEBLO DE CEBOLLETA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Land Grant administration	\$ 1,236,926	-	590,589	(646,337)
General Revenues:				
Mining lease revenue				960,000
Investment income				52,690
Fees and activites				8,951
Miscellaneous				2,231
Total general revenues				<u>1,023,872</u>
Change in net position				377,535
Net position, beginning of year				<u>4,849,827</u>
Net position, ending				<u><u>\$ 5,227,362</u></u>

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

**LA MERCED DEL PUEBLO DE CEBOLLETA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013**

	<u>General Fund</u>
ASSETS	
Current assets	
Cash	\$ 2,751,798
Investments	2,834,267
Accrued interest receivable	<u>126</u>
Total assets	<u><u>\$ 5,586,191</u></u>
LIABILITIES	
Accounts payable	<u>\$ 29,906</u>
FUND BALANCES	
Unassigned	<u>5,556,285</u>
Total liabilities and fund balances	<u><u>\$ 5,586,191</u></u>

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

**LA MERCED DEL PUEBLO DE CEBOLLETA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2013**

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

Total fund balances - governmental funds	\$ 5,556,285
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	1,396,077
Unearned revenue on mining lease not recorded in the governmental funds, but recorded as long-term liabilities in the Statement of Net Position	<u>(1,725,000)</u>
Net position - governmental activities	<u><u>\$ 5,227,362</u></u>

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

**LA MERCED DEL PUEBLO DE CEBOLLETA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2013**

	<u>General Fund</u>
Revenues	
Mining lease revenue	\$ 500,000
Federal revenue - grants	561,524
State revenue - grants	29,065
Fees and activities	8,951
Investment income	52,690
Miscellaneous	2,231
Total revenues	<u>1,154,461</u>
Expenditures	
Current:	
General government	1,205,218
Capital outlay	915,137
Total expenditures	<u>2,120,355</u>
Net change in fund balances	(965,894)
Fund balance, beginning of year	<u>6,522,179</u>
Fund balance, end of year	<u><u>\$ 5,556,285</u></u>

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

**LA MERCED DEL PUEBLO DE CEBOLLETA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2013**

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

Net changes in fund balances - governmental funds \$ (965,894)

Governmental funds report capital outlay 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. The following is the amount by which capital outlay exceeded depreciation in the current period.

Depreciation expense	(31,708)	
Capital outlay	915,137	883,429

Mining lease revenue is amortized on a straight-line basis over the ten year life of the mining lease:

460,000

Change in net position - governmental activities \$ 377,535

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

LA MERCED DEL PUEBLO DE CEBOLLETA
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Mining revenue	\$ -	-	500,000	500,000
Federal revenues - grants	-	-	561,524	561,524
State revenues - grants	-	-	29,065	29,065
Fees and activities	-	-	8,951	8,951
Investment income	-	-	52,715	52,715
Miscellaneous	-	-	2,231	2,231
Total revenues	-	-	1,154,486	1,154,486
Expenditures				
General government	-	-	1,195,254	(1,195,254)
Capital outlay	-	-	908,264	(908,264)
Total expenditures	-	-	2,103,518	(2,103,518)
Net change in fund balance	\$ -	-	(949,032)	(949,032)
Non-GAAP budgetary basis revenues			\$ 1,154,486	
Change in accrued interest receivable			(25)	
GAAP revenues			<u>\$ 1,154,461</u>	
Non-GAAP budgetary basis expenditures			\$ 2,103,518	
Change in accounts payable			16,837	
GAAP expenditures			<u>\$ 2,120,355</u>	

Note - the Land Grant could not find a copy of the original or final budget. As a result, that data is not presented.

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

LA MERCED DEL PUEBLO DE CEBOLLETA
STATEMENT OF FIDUCIARY NET POSITION
Scholarship Custodial Funds
June 30, 2013

	<u>Custodial Funds</u>
Assets	
Current assets	
Cash	<u>\$ 38,763</u>
Liabilities	
Current liabilities	
Custodial funds held for scholarships	<u>\$ 38,763</u>

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

LA MERCED DEL PUEBLO DE CEBOLLETA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Scholarship Custodial Funds
June 30, 2013

	<u>Custodial Funds</u>
Additions	
Contributions from mining lease agreement	\$ 34,917
Interest income	41
Total additions	<u>34,958</u>
Deductions	
Scholarship payments	<u>35,378</u>
Change in custodial funds held for scholarships	(420)
Liabilities, beginning of year	<u>39,183</u>
Liabilities, end of year	<u><u>\$ 38,763</u></u>

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

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History

In 1800, the La Merced del Pueblo de Cebolleta Land Grant “Land Grant”, was awarded by the Spanish Governor to 30 settlers and their families from the Albuquerque-Atrisco area. At the time the Land Grant was awarded, it encompassed approximately 200,000 acres. The settlement was intended as a buffer to forestall Navajo raids on the Río Grande communities. In 1882, US President Chester Arthur issued the Land Grant a patent for 199,957 acres. In 1884, 24,000 acres were sold to Laguna Pueblo through what is known as the Paguate Purchase. In 1907, a partition suit resulted in certain Land Grant lands transferred to attorneys in lieu of cash for payment. Also during the partitioning of the Land Grant, 4,039 acres were transferred to people living in the town of Marquez and surrounding area, which is now organized as the Juan Tafoya Land Corporation. In the 1940s, Lee Evans claimed and was awarded approximately 117,000 acres of the Land Grant by adverse possession. In 1968, 15,000 acres of the Land Grant was purchased by the New Mexico Department of Game and Fish to create the Marquez wildlife area. As of 2016, the Land Grant encompasses approximately 36,000 acres of common lands for the benefit of land grant heirs. Within the Land Grant’s current geographical area are three towns: Seboyeta, Bibo, and Moquino.

An important natural resource of the Land Grant is uranium. The Laguna mining district, which includes a portion of the area of the Cebolleta Land Grant, has been of considerable interest to the US uranium mining industry since the early 1950’s. The first discovery of uranium mineralization in the Laguna mining district was made by geologists and engineers of the Anaconda Copper Company in late 1951.

Climax Uranium, a subsidiary of American Metals Climax, leased certain properties from the Land Grant and discovered several uranium deposits that subsequently became the St. Anthony group of uranium deposits. Climax operated a small-scale underground mine between 1953 and 1960, when their lease was acquired by United Nuclear Corporation (later to become UNC Resources, now a subsidiary of General Electric). UNC developed two open pits and one underground mine at St. Anthony. UNC’s mining activities commenced in 1977 and continued through 1980.

Reserve Oil and Minerals and Sohio (then a subsidiary of the Standard Oil Company of Ohio) formed a joint venture in 1969 and discovered extensive uranium mineralization on the Land Grant prior to the development of an underground mine and construction of a uranium mill (L-Bar mill). Sohio operated the property between late 1976 and 1981. Sohio acquired Reserve Oil’s interests in the property in 1982, and subsequently deeded their property interests in the area to the Land Grant in 1989, fulfilling a portion of their reclamation and restoration obligations.

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Collectively, the L-Bar operation is credited with production of 1.9 million pounds of Uranium (U3O8), and the St. Anthony mines produced approximately 1.13 million pounds of Uranium (U3O8).

In April 2007, as more fully described in Note 3, the Land Grant entered into an Advance Royalty Lease Agreement with a Uranium company.

A. Financial Reporting Entity

The Land Grant, located in Cibola County, was established as a political subdivision of the State of New Mexico in 2004. The Land Grant is considered to be a special purpose government.

Generally accepted accounting principles (GAAP) requires that financial statements present the Land Grant (primary government) and its component units. The Land Grant has three component units (Moquino Water Association, Seboyeta Water Association and Bibo Water Association) that are required to be presented in accordance with Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*.

Blended Component Units—The Land Grant does not have any component units reported as blended component units.

Discretely Presented Component Units—The Land Grant has three component units which should be reported as discretely presented component units under GAAP. However, the Land Grant has not included the financial information of the component units due to not having accounting records and the underlying source documents and financial data available for fiscal year 2013. The effect of this GAAP departure has not been determined.

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A. Financial Reporting Entity (Continued)

This summary of significant accounting policies of the Land Grant is presented to assist in the understanding of the Land Grant's financial statements. The financial statements and notes are the representation of the Land Grant's management who are responsible for their integrity and objectivity. The financial statements of the Land Grant conform to accounting principles generally accepted in the United States of America as applied to governmental units except for the departures from GAAP described in these notes. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's policies are described below.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the Land Grant. For the most part, the effect of inter-fund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A. Financial Reporting Entity (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Land Grant considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues received during the year but are applicable to subsequent years are reported as deferred inflows of resources. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Expenditures incurred during the year that are for the benefit of subsequent years are reported as deferred outflows of resources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Land Grant.

The Land Grant reports the following major governmental fund:

General Fund — The General Fund is the Land Grant's primary operating fund. It accounts for all financial resources of the general government.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

The Land Grant reports the following fiduciary funds

Scholarship Custodial Funds — This fund is used to account for a Scholarship Trust Fund. The Scholarship Trust Fund allows for both principal and interest to be used for scholarships of eligible Land Grant members.

Fiduciary Funds are used to account for assets held by the Land Grant in an agency or custodial capacity for others and, therefore, are not available to support Land Grant functions. Fiduciary Funds are never considered to be a major fund and typically use the economic resources measurement focus concept of accounting. Since agency funds are custodial in nature, they have no measurement focus and are not incorporated into the government-wide financial statements.

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

B. Cash and Investments

Cash includes amounts in demand deposits accounts. Cash deposits are reported at their carrying amount, which reasonably estimates fair value.

Investments consist of certificates of deposit and money market accounts. All investments are stated at fair value that is determined by using selected bases. Interest income, realized gains and losses on investment transactions, and amortization of premiums/discounts on investment purchases are included for financial statement purposes as investment income and are allocated to participating funds based on the specific identification of the source of funds for a given investment.

The Land Grant does not have an investment policy. Land Grant funds are invested in accordance with New Mexico State Statute 6-10-36 which provides for the following investments:

1. United States Treasury Securities (Bills, Notes and Bonds) and other securities issued by the United States government or its agencies or instrumentalities that are either direct obligations of the United States of America, the Federal Home Loan Mortgage Corp., the Federal National Mortgage Association, the Federal Farm Credit Bank, or the Student Loan Marketing Association, or are backed by the full faith and credit of the United States government.
2. Insured and/or collateralized (with U.S. Government Securities and/or New Mexico Bonds) certificates of deposit of banks, savings and loan associations, and credit unions, pursuant to State Board of Finance Collateral Policies.
3. Money market funds whose portfolios consist entirely of United States Government Securities or agencies sponsored by the United States government.
4. Investments in the New Mexico State Treasurer external investment pool (Local Government Investment Pool).

C. Prepaid Items

Payments made to vendors for services that will benefit periods beyond the year-end are recorded as prepaid items. There were no prepaid assets at year-end.

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D. Capital Assets

GAAP requires capital assets and related depreciation be reported in the accompanying financial statements. Capital assets, which include property, buildings, and equipment are not reported as the Land Grant has not maintained records for 2007 and prior years. The effect of this GAAP departure is not determinable until an inventory of capital assets has been completed and the cost of capital assets and accumulated depreciation has been compiled in capital asset records.

Capital assets are defined by the Land Grant as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The Audit Act, 12-6-10, NMSA 1978, requires all assets which cost more than \$5,000 and have a life greater than one year to be added to the General Fixed Asset Account Group and a yearly inventory of those assets must be taken.

E. Intangible Assets

Under Statement of ASC 350, *Intangibles - Goodwill and Other*, intangible assets with indefinite lives are no longer amortized. Indefinite lived intangible assets, such as water rights, are tested for impairment on an annual basis. There were no intangible assets at year-end.

F. Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Land Grant has only one type of this item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from mining lease revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

G. Fund Balances

The Land Grant follows GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable – Represents amounts that are not in a spendable form, cannot be spent, or required by legal or other contractual reasons to be maintained intact. This classification includes permanent fund principal, inventory, assets held for sale, prepaids, and long-term receivables net of deferred revenue. At June 30, 2013, the Land Grant did not have nonspendable fund balances.

Restricted – Represents amounts that have been constrained by specific purposes stipulated by external providers, creditors, grantors and other governments, constitutionally, or through enabling legislation. At June 30, 2013, the Land Grant did not have restricted fund balances.

Committed – Includes amounts that have been committed by formal action by the highest level of authority for specific purposes (via Board of Trustees action, resolution or adopted ordinance-both equally binding) and can only be changed or lifted by the same formal action. At June 30, 2013, the Land Grant did not have committed fund balances.

Assigned – Amounts that are intended to be used for specific purposes by the Land Grant, but do not meet the definition of other fund balance classifications. The general fund is the only fund that may have assigned fund balance due to the restricted nature of other fund types. The authority to assign fund balance can be that of the Board of Trustees, or by an official (usually the President or Treasurer) that has been delegated that authority. At June 30, 2013, the Land Grant did not have assigned fund balances.

Unassigned – This is the fund balance that is the residual classification for the General Fund not contained in other classifications. Only the General Fund can report a positive unassigned fund balance. Other governmental funds may have a negative unassigned fund balance after all restrictions or commitments have been accounted for via other classifications. In the General Fund, the unassigned fund balance at June 30, 2013, was \$5,556,285 and represents residual fund balance undesignated by other classifications.

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

H. Net Position

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds and deferred outflow of resources related to refunding of bonds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Land Grant or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. Unrestricted net position represents assets of the Land Grant not restricted for any other project or purpose.

I. Budgetary Information

Budgets for the general fund are prepared by management and are approved by the Land Grant's governing Board and the New Mexico Department of Finance and Administration. The waste water fund's budget is included in the general fund's budget.

These budgets are prepared on the non-GAAP cash basis.

Actual expenditures may not exceed the budget at the total fund level. The budget may be amended by the Board with the approval of New Mexico Department of Finance and Administration, Local Government Division (DFA-LGD).

The budgetary information presented in these financial statements has been prepared in accordance with the above procedures.

The Land Grant follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the budget committee of the Board submits to the Board a proposed operating budget of the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to June 1, the budget is approved or adjusted and approved by the Board.
3. Prior to June 20, the approved budget is submitted to the State of New Mexico, Department of Finance and Administration, Local Government Division (DFA-LGD) for approval by the first Monday of September. The Board receives notice of the acceptance of the approved budget.

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

I. Budgetary Information (Continued)

4. Formal budgetary integration is employed as a management control device during the fiscal year for the general fund.

Actual amounts on the budgetary basis are prepared on the cash basis of accounting which recognizes revenues when received and expenditures when paid. Annual budgets are adopted for the general, special revenue, capital projects, and debt service funds.

J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Implementation of New Accounting Standards

During the year ended June 30, 2007, the Land Grant adopted all of the Government Accounting Standards Board Statements (GASBs) promulgated between June 1, 2006 and June 30, 2017 for which the Land Grant was eligible to adopt or early adopt. No new GASBs have been adopted for the year ending June 30, 2013.

NOTE 2. CASH AND INVESTMENTS

Custodial Credit Risk. Custodial credit risk is, in the event of the failure of a depository financial institution, the Land Grant will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Land Grant does not have a deposit policy for custodial credit risk. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Land Grant's name. As of June 30, 2011, the Land Grant's bank balance total of \$5,586,065 was exposed to credit risk in the amount of \$3,296,065 as follows:

Uninsured and collateral held by pledging bank's trust department not in the Land Grant's name	<u>\$ 3,296,065</u>
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LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

The total balance in any single financial institution may at times exceed the FDIC coverage available to deposits. In accordance with Section 6-10-17, NMSA, 1978 Compilation, the Land Grant is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account.

Interest Rate Risk

The Land Grant does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

The Land Grant places no limit on the amount that may be invested in any one issuer.

NOTE 3. LEASE AGREEMENT FOR SURFACE AND MINERAL RIGHTS

In April 2006, the Land Grant received an offer from an individual for the exploration, development, and production of uranium on the common lands of the Land Grant. In June 2006, the Land Grant received a second offer from Neutron Energy Inc. (Neutron).

From June 2006 through January 2007, working with a consultant on a contingency fee basis, the Land Grant reviewed and evaluated a number of offers of interested companies active in uranium exploration. On January 27, 2007 the Board of Trustees of the Land Grant, evaluated two final offers and selected and voted for Neutron, which offered the Land Grant the highest pre-production economic potential defined as the direct potential economic benefit to the Land Grant prior to the production of minerals. To formally document and record the outcome of the vote, the Board signed a Resolution declaring the Grant's intention to sign a Letter Agreement and to negotiate and sign a Definitive Agreement with Neutron. Also, on January 27, 2007, the Board signed a Letter Agreement with Neutron.

On March 11, 2007, the Land Grant entered into an advance royalty lease agreement (Lease Agreement) with Neutron Energy Inc., (Neutron) to lease approximately 6,700 acres of fee (deeded) surface and mineral rights. The Lease Agreement was affirmed by the New Mexico District Court in Cibola County on April 6, 2007. The Lease provides Neutron with the right to explore for, mine, and process uranium deposits present on the Land Grant Property.

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3. LEASE AGREEMENT FOR SURFACE AND MINERAL RIGHTS
(CONTINUED)

The Lease Agreement provides for:

- i. a term of ten years and so long thereafter as Neutron is conducting operations on the Land Grant;
- ii. initial payments to the Land Grant of \$5,000,000 (\$3,000,000 in April 2007 and \$2,000,000 October 2008);
- iii. a recoverable reserve payment equal to \$1.00 multiplied by the number of pounds of recoverable uranium reserves upon completion of a feasibility study to be completed within six years, less;
 - a. the \$5,000,000 referred to in (ii) above; and
 - b. not more than \$1,500,000 in annual advance royalties previously paid pursuant to (iv);
- iv. annual advanced royalty payments of \$500,000;
- v. gross proceeds royalties from 4.50% to 8.00% based on the then current price of uranium;
- vi. employment opportunities and job-skills training for the members of the Cebolleta Land Grant; and
- vii. funding of annual higher education scholarships for the members of the Cebolleta Land Grant (\$30,000 in the first year of the contract).

In February 2012, Neutron and the Land Grant amended the Lease Agreement. Pursuant to the amendment, the date by which the Borrower must complete a feasibility study was extended from April 2013 to April 2015. As of October 23, 2017, the feasibility study has not been completed. In addition, the date may be further extended subject to a reduction in the \$6,500,000 initial payment and annual advance royalty payments deduction to the recoverable reserve payment.

On August 31, 2012, 100% of the equity of Neutron Energy Inc. was acquired by Uranium Resources, Inc.

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

**NOTE 3. LEASE AGREEMENT FOR SURFACE AND MINERAL RIGHTS
(CONTINUED)**

As noted above, the Lease Agreement provides \$30,000 per year (increased each year after 2007 using the Higher Education Inflation Index) to be used for scholarships to Land Grant residents. The Land Grant Board is the Trustee of the Plan and is responsible for selecting recipients and providing the requirements for renewal of scholarships. Scholarship America, an unrelated third-party, has been contracted to provide management services associated with the scholarship disbursement. The contract between the Land Grant and Scholarship America was entered into in June 2007 and continues on a year to year basis unless terminated by either party. The balances and activity of the scholarship fund are accounted for in a fiduciary custodial fund.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ending June 30, 2013 was as follows:

	Beginning			Ending
	Balance	Additions	Transfers	Balance
Land	\$ 6,864	-	-	6,864
Construction in process	-	-	-	-
Buildings	455,749	88,045	(77,098)	466,696
Infrastructure	68,380	791,467	-	859,847
Improvements	-	35,625	77,098	112,723
Accumulated depreciation	(18,345)	(31,708)	-	(50,053)
Capital assets, net	\$ 512,648	883,429	-	1,396,077

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 5. UNEARNED REVENUE – GOVERNMENT-WIDE FINANCIAL STATEMENTS

As initial consideration for entering into the Lease Agreement (Note 3), Neutron Energy Inc., provided cash payments of \$3,000,000 in April of 2007 and \$2,000,000 in October of 2007.

The \$5,000,000 consideration for entering into the Lease Agreement less \$375,000 of professional services in conjunction with obtaining the lease agreement is capitalized to unearned revenue and then amortized into income over the ten-year life of the Lease Agreement at the rate of approximately \$38,333 per month. During the year ended June 30, 2013, \$460,000 of unearned revenue was earned. At June 30, 2013, the amount of unearned revenue is \$1,725,000. Unearned revenue is earned as follows:

Year Ending June 30:

2014	\$ 460,000
2015	460,000
2016	460,000
2017	<u>345,000</u>
	<u>\$ 1,725,000</u>

NOTE 6. ENVIRONMENTAL REMEDIATION

The Land Grant is the site of several former open pit and underground uranium mines. Below is the current status of the environmental remediation of the two largest mines. The Land Grant does not have a remediation obligation for either site.

L-Bar Mine. Sohio Western Mining developed and operated an underground mine and a uranium mill on a portion of the Land Grant. Surface disturbances associated with the former mine and mill complex have been restored by the successor company to Sohio, with the formal approval of the Mining and Minerals Division of the New Mexico Department of Energy and Minerals. The area of the former Sohio L-Bar uranium processing mill and tailings storage facility were previously reclaimed, and the site has been deeded to the US Department of Energy for long-term monitoring.

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 6. ENVIRONMENTAL REMEDIATION (CONTINUED)

St Anthony Mine. UNC Resources (now a subsidiary of General Electric) operated the former St. Anthony open pit and underground mines. Extensive surface disturbances associated with these mines have not been restored, but are subject to a pending reclamation permit application filed by UNC Resources with Mining and Minerals Division. The most recent estimated cost of reclamation (September 2011), is approximately \$25.8 million. In 2013, UNC Resources provided the Mining and Minerals Division financial assurances for the 2011 estimated cost of reclamation. As of October 23, 2017, another permitting process is currently on-going with the New Mexico Environment Department Mining Environmental Compliance Section (NMED MECS) to determine how to reclaim the pit. Once the NMED MECS process is completed, a new reclamation plan and an updated financial assurance amount will be available.

NOTE 7. RISK MANAGEMENT

The Land Grant did not have risk management insurance during fiscal year 2013.

NOTE 8. CONTINGENCIES

The Land Grant does not have any knowledge of actual or pending lawsuits against the Land Grant. There is an assessment against the Land Grant by the New Mexico Taxation and Revenue Department of approximately \$40,000 for unpaid gross receipts tax on the sales of water by the three component unit water associations.

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 9. SUBSEQUENT EVENTS

Subsequent events were evaluated through June 19, 2018, which is the date the financial statements were available to be issued. We were not able to obtain sufficient evidence to allow us to disclose all material subsequent events because CLG's records are incomplete. However, we did identify the following are the material subsequent events that occurred:

Mining revenue received after June 30, 2013

The Lease Agreement (Note 3), requires an additional cash payment in October of 2007 of \$2,000,000, and payment of advance royalties every year in the amount of \$500,000 until the completion of a feasibility study. The feasibility study has not been completed as of October 23, 2017. Subsequent to June 30, 2013, an additional \$1,000,000 has been earned and collected in the fund financial statements through April 26, 2018. \$100,000 of the remaining fiscal year 2016 advance royalty is expected to be received in August 2017.

Scholarship cash receipts received after June 30, 2013

The Lease Agreement (Note 3) requires annual payments to the Scholarship Fund. Subsequent to June 30, 2013, an additional \$162,594 has been collected through April 26, 2018.

Ranch Purchase

On January 30, 2014, the Land Grant purchased the Moleres Ranch (the "Ranch") which is located approximately 90 miles northwest from the Land Grant for approximately \$2,000,000. The Ranch is 11,734 acres in size and consists of grazing parcels along with wildlife. Revenue derived from the Ranch includes grazing fees and hunting permits.

Gas Line Installation

On April 25, 2013 and May 27, 2015, the Land Grant entered into contracts with the New Mexico Gas Company to bring gas lines to the Land Grant. Phase I of the project includes installation of gas infrastructure to the Land Grant border, and Phase II of the project includes installation of gas infrastructure to the Land Grant's community center. The total cost incurred through April 19, 2018 was \$1,934,766.

Phase I — Natural Gas Line to Land Grant Border: In September 2012, the Pueblo of Laguna (Pueblo) entered into an agreement with the New Mexico Gas Company (NM Gas) to install a natural gas line from the Rio San Jose Valley to the Land Grant of Paguete (12.01 miles or 63,431 feet) with construction starting in July of 2013. The Pueblo also entered into a land lease (with an initial term of 25 years plus future renewals) with the New Mexico Gas Company in June 2013 that allowed the NM Gas natural gas line to be extended from the Land Grant of Paguete (to the Laguna reservation boundary with the Land Grant (1.28 miles or 6,743 feet). The entire project was completed in October 2013.

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 9. SUBSEQUENT EVENTS (CONTINUED)

The Land Grant paid for cost sharing to upsize the originally planned four-inch pipe to six-inch pipe from the Rio San Jose Valley to the Land Grant of Paguate to ensure sufficient volume to serve the Land Grant. The Land Grant also paid for the extension of the six-inch pipeline from the Paguate to the southern boundary of the Land Grant along Highway 279. Total cost to the Land Grant under Phase I was \$1,302,931 and was incurred in fiscal years 2013 and 2014.

Phase II — Upgrade and addition of infrastructure needed for the distribution system: As of October 23, 2017, work has not started on this phase as the final approval of a recently performed cultural survey is pending. This phase includes an upgrade to the infrastructure which requires approximately 3,700 feet of four-inch VHP steel main pipe to be installed from the Old Laguna Purchase Regulatory Station south of Interstate 40 to the Old Laguna New Housing Regulator Station north of Interstate 40.

Additionally, new distribution mains consisting of approximately 13,850 feet of four-inch polyethylene (PE) pipe and 2,380 feet of two-inch PE pipe will be installed from the Land Grant's southern boundary with the Pueblo, north along NM Highway 279, to the Cebolleta Community Center on Plaza Loop.

Total cost to the Land Grant under Phase II is expected to be \$631,835. This amount was pre-paid in fiscal year 2015.

Land Grant Management of Water Associations

The Land Grant took over management of the operations of the water associations during 2012 and 2013. The water associations consist of three separate water associations: Bibo Water Association, Seboyeta Water Association, and Moquino Water Association. All three water associations had equipment that was in need of repair and maintenance, but did not have the resources to perform the necessary maintenance and make necessary repairs in order to be in compliance with standards set by the New Mexico Environment Department. The Land Grant had paid the repair and maintenance and capital outlay expenses of the water associations since taking over their management.

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 9. SUBSEQUENT EVENTS (CONTINUED)

Los Portales Recreation Area Improvement

Los Portales is a recreational area located in the Land Grant which is described as a shrine tucked into the end of a large cave, almost like an outdoor amphitheater. In 2013, the Land Grant entered into a contract to construct a water drainage system for the recreation area. The cost of the project was approximately \$73,000.

Moradas Remodel

The Land Grant entered into projects to remodel two Moradas located in the Land Grant. A Morada is chapel or meeting house, and houses religious art. The Morada de Nuestro Padre de Jesus de Nazareno de Cebolletita located in Bibo, New Mexico was remodeled in 2013 at a cost of approximately \$90,000. Also, the Land Grant remodeled Nuestro Padre de Jesus de Nazareno morada located in Moquino, New Mexico, at a cost of approximately \$80,000.

LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
June 30, 2013

Depository	Account Name	Interest Bearing	Type	Depository Balance	Reconciled Balance
Bank of Albuquerque	Wastewater Checking	No	Checking	\$ 62	62
Bank of Albuquerque	Primary Checking	No	Checking	716,926	716,926
Bank of Albuquerque	Primary Savings	No	Checking	2,020,842	2,020,842
Bank of Albuquerque	Escrow	No	Checking	5,144	5,144
Bank of Albuquerque	Account 1106	No	Checking	8,769	8,769
Bank of Albuquerque	Account 2433	No	Checking	50	50
Bank of Albuquerque	Account 2587	No	Checking	5	5
Total cash				<u>2,751,798</u>	<u>2,751,798</u>
Bank of Albuquerque	Investment	Yes	Money Market	642,397	642,397
Bank of Albuquerque	CD	Yes	Certificate of Deposit	151,870	151,870
Bank of Albuquerque	CEDARS	Yes	Certificate of Deposit	2,040,000	2,040,000
Total investments				<u>2,834,267</u>	<u>2,834,267</u>
Total deposit and investment accounts				<u>\$ 5,586,065</u>	<u>5,586,065</u>

LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2013

	Bank of Albuquerque
Total deposits and investments at June 30, 2013	\$ 5,586,065
Less: FDIC coverage (see note below)	2,290,000
Uninsured public funds	<u>3,296,065</u>
Pledged collateral held by the pledging bank's trust department or agent but not in the Land Grant's name	5,044,635
Uninsured and uncollateralized	<u>\$ -</u>
50% pledged collateral requirement per statute	\$ 1,648,033
Total pledged collateral	<u>5,044,635</u>
Pledged collateral over the requirement	<u>\$ (3,396,602)</u>

Pledged collateral at June 30, 2013 consists of the following:

Security	CUSIP	Maturity	Market Value
Federal Home Loan Bank Topeka	3128PTJY2	12/1/2020	340,566.80
Federal Home Loan Bank Topeka	3138AYV48	11/1/2026	71,253.75
Federal Home Loan Bank Topeka	3136A2QSS	3/25/2030	190,396.24
Federal Home Loan Bank Topeka	3136A3KC4	12/25/2025	143,913.30
Federal Home Loan Bank Topeka	3136A3KC4	12/25/2025	143,913.30
Federal Home Loan Bank Topeka	3136A3KC4	12/25/2025	539,674.88
Federal Home Loan Bank Topeka	3136A84E7	12/25/2025	266,473.05
Federal Home Loan Bank Topeka	3136A85L0	10/25/2022	218,404.89
Federal Home Loan Bank Topeka	3137APDW7	10/25/2022	1,089,362.46
Federal Home Loan Bank Topeka	3137APHDS	5/15/2026	253,086.75
Federal Home Loan Bank Topeka	3137APHD5	6/15/2026	421,811.25
Federal Home Loan Bank Topeka	3137APHDS	6/15/2026	421,811.25
Federal Home Loan Bank Topeka	31396QES4	6/15/2026	178,183.80
Federal Home Loan Bank Topeka	31396QES4	11/25/2026	28,509.41
Federal Home Loan Bank Topeka	31398JN66	7/15/2022	518,817.29
Federal Home Loan Bank Topeka	38376PTEC	10/20/2032	218,456.24
			<u>\$ 5,044,635</u>

The custodian of the pledged securities is the Bank of Albuquerque, NA, in Tulsa, Oklahoma.

Note on FDIC coverage: The Bank of Oklahoma has used the CEDARS program to invest the Land Grant's money in certificates of deposits at other financial institutions so that they are covered by FDIC insurance. We were unable to obtain statements specifying the banks where the funds were distributed. We will assume FDIC coverage is complete because they are independently distributed CDARS.

LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2013

Grantor Agency and Grant Title	Federal CFDA Number	Pass-Through Grantor's Contract Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Community Services Block Grant	14.228	10-C-NM-I-01-G-20	<u>\$ 500,000</u>

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

LA MERCED DEL PUEBLO DE CEBOLLETA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2013

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of La Merced del Pueblo de Cebolleta. The schedule is presented on the accrual basis of accounting, which is the same basis that was used to prepare the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Not-for-Profit Organizations*.

NOTE 2. FISCAL AGENT

Cibola County (County) acted as the fiscal agent for the federal funds expended as part of the Community Development Block grant. The County was responsible for all grant reporting and disbursement of funds. As a result, the Land Grant has received an unmodified opinion on their single audit.

The County reported the grant funds in their June 30, 2012 audit report. The report indicates that no funding was provided to subrecipients, which means no funds were provided to the Land Grant directly.

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS
10612 ROYAL BIRKDALE NE
ALBUQUERQUE, NM 87111

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

Mr. Wayne A. Johnson, New Mexico State Auditor, and
The Board of Trustees
La Merced del Pueblo de Cebolleta
Seboyeta, 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, financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison of the general fund of the La Merced del Pueblo de Cebolleta (Land Grant) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Land Grant's basic financial statements and have issued our report thereon dated June 19, 2018. Our report expressed an adverse opinion on the financial statements because the Land Grant did not include financial data for legally separate component units, and a qualified opinion on the entity wide and governmental fund financial statements and footnotes because the Land Grant's records were insufficient to support the transactions in the accounting records, insufficient data was available for proper subsequent events disclosure, and because current Board members have alleged that fraud has been committed by current and former Board members. It was not practicable to determine the impact of the alleged fraud on the financial statements if the fraud did occur.

Internal Control Over Financial Reporting

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

Mr. Wayne A. Johnson, New Mexico State Auditor, and
The Board of Trustees
La Merced del Pueblo de Cebolleta
Seboyeta, New Mexico

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2007-001 through 2007-15, 2007-17, 2007-018, 2007-020 through 2007-021, 2007-025, 2007-026, 2007-030 through 2007-036, and 2011-001.

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. We consider the following deficiencies described in the accompany schedule of findings and responses to be significant deficiencies: 2007-027.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Land Grant'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of other findings as items 2007-001, 2007-007, 2007-009, 2007-020 through 2007-22, 2007-024 through 2007-026, 2007-028, 2007-029, 2007-031 through 2007-035, and 2011-001.

Mr. Wayne A. Johnson, New Mexico State Auditor, and
The Board of Trustees
La Merced del Pueblo de Cebolleta
Seboyeta, New Mexico

Land Grant's Responses to Findings

The Land Grant's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Land Grant's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Land Grant'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.

Porch & Associates, LLC

Albuquerque, New Mexico
June 19, 2018

Porch & Associates LLC

CERTIFIED PUBLIC ACCOUNTANTS
10612 ROYAL BIRKDALE NE
ALBUQUERQUE, NM 87111

Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Mr. Wayne A. Johnson, New Mexico State Auditor, and
The Board of Trustees
La Merced del Pueblo de Cebolleta
Seboyeta, New Mexico

Report on Compliance for Each Major Federal Program

We have audited La Merced del Pueblo de Cebolleta's (Land Grant) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Land Grant's major federal programs for the year ended June 30, 2013. The Land Grant's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Our report expressed an adverse opinion on the financial statements because the Land Grant did not include financial data for legally separate component units, and a qualified opinion on the entity wide and governmental fund financial statements and footnotes because the Land Grant's records were insufficient to support the transactions in the accounting records, insufficient data was available for proper subsequent events disclosure, and because current Board members have alleged that fraud has been committed by current and former Board members. It was not practicable to determine the impact of the alleged fraud on the financial statements if the fraud did occur.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Mr. Wayne A. Johnson, New Mexico State Auditor, and
The Board of Trustees
La Merced del Pueblo de Cebolleta
Seboyeta, New Mexico

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Land Grant's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Land Grant's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Land Grant's compliance.

Opinion on Each Major Federal Program

In our opinion, Land Grant complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Land Grant is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Land Grant's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Land Grant's internal control over compliance.

Mr. Wayne A. Johnson, New Mexico State Auditor, and
The Board of Trustees
La Merced del Pueblo de Cebolleta
Seboyeta, New Mexico

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-001 that we consider to be a significant deficiency.

The Land Grant's response to the finding is described in the accompanying schedule of findings and questioned costs. The Land Grant's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Porch & Associates LLC

Albuquerque, New Mexico
June 19, 2018

**LA MERCED DEL PUEBLO DE CEBOLLETA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2013**

Findings from Year Ended June 30, 2012:	Current Status:
2007-001 Late Independent Public Accountant (IPA) Recommendation and Audit Report	Repeated and updated
2007-002 Inadequate Accounting and Internal Control Processes	Repeated
2007-003 Insufficient Accounting Records and Document Retention	Repeated
2007-004 Insufficient Segregation of Duties	Repeated
2007-005 Insufficient Internal Controls over Cash Receipts Process	Repeated
2007-006 Insufficient Internal Controls over the Cash Disbursement Process	Repeated and updated
2007-007 Insufficient Internal Controls over Travel and Per Diem Expenses	Repeated and updated
2007-008 Insufficient Internal Controls over Investments	Repeated
2007-009 Insufficient Internal Controls over Capital Assets And Construction in Progress	Repeated
2007-010 Insufficient Internal Controls over Journal Entries	Repeated
2007-011 Insufficient Internal Controls over Trial Balance, Financial Reconciliations, Component Unit Determination and Reporting	Repeated
2007-012 Insufficient Internal Controls over Related Party Transactions and the Governmental Conduct Act	Repeated
2007-013 Insufficient Internal Controls over Information Technology	Repeated
2007-014 Lack of Ethics Policy	Repeated
2007-015 Insufficient Practices for the Identification, Mitigation and Monitoring of Risks	Repeated

**LA MERCED DEL PUEBLO DE CEBOLLETA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
Year Ended June 30, 2013**

Findings from Year Ended June 30, 2012:	Current Status:
2007-017 Unavailable Bank Statements and Related Bank Reconciliations	Repeated
2007-018 Untimely Bank Reconciliations	Repeated
2007-020 Budgetary Compliance	Repeated and updated
2007-021 Board Minutes	Repeated and updated
2007-022 Liability Insurance Coverage	Repeated
2007-024 IRS Form 1099s and W9s	Repeated
2007-025 Payments of New Mexico Gross Receipts Taxes (NMGRT) by Water Associations (Component Unites)	Repeated
2007-026 Security of Records	Repeated
2007-027 Transitioning Between Boards	Repeated and updated
2007-028 Board Treasurer and Others Not Bonded	Repeated
2007-029 Issuance of Receipts for Money Collected	Repeated
2007-030 Board of Trustee Meetings	Repeated
2007-031 Annual Report	Repeated
2007-032 Open Meetings Act	Repeated
2007-033 Public Records Custodian	Repeated
2007-034 Elections	Repeated
2007-035 By-Laws	Repeated

**LA MERCED DEL PUEBLO DE CEBOLLETA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
Year Ended June 30, 2013**

Findings from Year Ended June 30, 2012:

Current Status:

2007-036 Environmental Remediation

Repeated and updated

2010-001 Procurement Violations

Repeated and updated

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013**

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued:	Disclaimer/modification
Internal control over financial reporting: Material weakness identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	Yes

Federal Awards

Internal control over major programs: Material weaknesses identified?	None noted
Significant deficiencies identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes
The programs tested as major programs included:	CFDA Number
Community Development Block Grant	14.228
The dollar threshold used to distinguish between type A and B programs:	\$300,000
Auditee qualified as a low risk auditee?	No

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-001 Late Independent Public Accountant (IPA) Recommendation and Audit Report (Material Weakness Non-Compliance)

Condition: The IPA recommendation was not submitted by the May 15, 2013 due date. The audit report for the Land Grant's fiscal year ended June 30, 2013 was not submitted by the due date required OSA Rule 2.2.2.9 (A). The audit report was submitted June 27, 2018.

Criteria: OSA Rule 2.2.2.8 establishes a due date for IPA recommendation of May 15 for local public bodies that do not qualify for the tiered system. Once a land grant-merced receives a notice to proceed with their IPA firm recommendation they must execute a contract for services with the approved firm and return it to the Office of the State Auditor within fifteen (15) days for final approval.

OSA Rule 2.2.2.9 (A) establishes a due date for submission of this audit report to the Office of the State Auditor.

Effect: The recommendation and report were not submitted as required. Without the audit report being delivered on time, regulatory agencies as well as legislative committees do not have the financial data available to make funding decisions. Heirs to the Land Grant also do not have the financial data available for review. Capital projects funding is currently withheld from the Land Grant until all currently due audits are completed and released through the Office of the State Auditor.

Cause: New Mexico Land Grants' compliance with the Audit Act came into focus in 2011. The Land Grant reported their revenues to the New Mexico State Auditor in 2011 and stated the books and records were "ready for audit". However, the records were not ready at that time and, over the years, the Land Grant has hired several different CPA firms to prepare the books and records for audit. The Land Grant procured an auditor in 2011, but the contract did not result in a completed audit. The Land Grant procured a second auditor in November 2015, but the contract did not result in a completed audit. Subsequently, there was confusion as to if the Land Grant's mining lease revenue was subject to audit (public monies or private funding).

During 2015, the Office of the State Auditor determined that all revenues of the Land Grant were subject to the Public Monies Act, as the Land Grant had chosen in 2004 to become a political subdivision of the State. The Office began enforcing compliance and the new Board of Trustees procured a new auditor. The current IPA was contracted in March 2017 to perform the audits beginning with fiscal year 2007, since that is when the current mining lease began and the Land Grant began receiving at least \$500,000 annually from the mining lease. Since 2007, the Land Grant has received local, state and federal funds in addition to the mining lease revenue.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-001 Late Independent Public Accountant (IPA) Recommendation and Audit Report (Material Weakness Non-Compliance) (Continued)

Auditor's Recommendations: We recommend the Land Grant get caught up on outstanding audits as soon as possible and remain in compliance with the Office of the State Auditor's deadlines and the Audit Act moving forward.

Management's Response:

Corrective action(s): The current Board will work with the independent auditor and a CPA firm to ensure completion of any remaining audits for the Land Grant on or before December 2018. The Board also plans to hire a business manager, and the business manager job description will include overseeing the various administrative activities of the Land Grant so that the accounting records can be kept current going forward.

Responsible person(s): All current Board members and their successors

Timeline of corrective action: On or before December 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-002 Inadequate Accounting and Internal Control Processes (Material Weakness)

Condition: During the entity-wide internal controls evaluation, it was noted that an accounting procedures manual has not been adopted, and policies and procedures that adequately define accounting and reporting responsibilities have not been documented.

Criteria: Good accounting practices require the Land Grant to implement and follow sound accounting and internal control policies and procedures. This increases the risk that unauthorized transactions could occur, funds could be inappropriately accounted for, and transactions could be inaccurately recorded and reported.

Section 49-1-3 (A) NMSA 1978 states that the Board of Trustees has the power to control, care for and manage the land grant-merced and real estate, prescribe the terms and conditions under which the common lands may be used and enjoyed and make all necessary and proper by-laws, rules and regulations that shall be in substantial compliance with applicable statutes for the government thereof.

Effect: The Land Grant is not adhering to proper accounting procedures to ensure the generation of reliable financial records that can be utilized for reporting and decision making.

Cause: There are no employees, and therefore, the Board operates as management. Lack of contracted or W-2 employees has resulted in weak-to-nonexistent internal controls, accurate balances, and policies and procedures.

Auditor's Recommendation: The Board should monitor that corrective action is being taken and that all audit findings are resolved. The Board should document (or contract out) responsibilities, policies and procedures to correct existing deficiencies in the accounting and internal controls environment and to cover situations where personnel are unavailable.

We recommend that procedures for transaction initiation and processing be formally documented as soon as possible. Written procedures, instructions, and assignments of duties will also prevent or reduce the risk that unauthorized transactions could occur, funds could be inappropriately accounted for, and transactions could be inaccurately recorded and reported.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-002 Inadequate Accounting and Internal Control Processes (Material Weakness) (Continued)

The by-laws, rules and regulations approved by the Board must comply with any applicable laws related to land grants found in the general provisions of Chapter 49-1-1 through 49-1-23 as well as any other statutory chapters in the law that relate to land grants or political sub-divisions of the state in general.

Management's Response:

Corrective action(s): The current Board will retain a CPA firm to assist with accounting and to create an accounting procedures manual for the Land Grant. The Board plans to hire a business manager to complete this by December 31, 2018.

Responsible person(s): All current Board members and their successors

Timeline of corrective action: December 31, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-003 Insufficient Accounting Records and Document Retention (Material Weakness)

Conditions: The Land Grant did not maintain sufficient accounting records for all transaction types.

Criteria: 49-1-14(C) NMSA 1978 states in part that the Board of Trustees shall keep permanent and legible records capable of audit.

In the New Mexico Land Grant Governance Guidebook 2011, Financial Reporting and Audit Guidelines section, it gives very clear instructions for audits, financial reporting, and document retention, stating that one of the most important things a land grant-merced can do in preparation for an audit is properly file and safeguard their records. It is necessary to save copies of all financial records including purchase receipts, bank statements, check registers, withdrawal and deposit receipts, reconciliation reports, approved budgets, budget adjustment requests and financial statements. Also, it is important to keep on file copies of the meeting agendas, approved meeting minutes and resolutions passed throughout the fiscal year. All of these documents are what must be included in the annual report required by statute (Land Grant General Provision 49-1-12 NMSA 1978).

All of the above listed records should be categorized and place in a folder or binder for safekeeping and easy access by an auditor. In addition, electronic records of all this should be maintained as well in archives for permanent access. All records should be filed in order by date. Bank Statements and reconciliations should be kept together in one binder. Along with this binder there should be a file kept with all the receipts for deposits and withdrawal from the bank as well as a file with any and all check registers used. All receipts for purchases should be filed by month throughout the fiscal year. The original approved budgets as well as any approved Budget Adjustment Requests should be all in one file or binder. The same goes for any monthly or quarterly financial statements produced throughout the fiscal year. The Secretary of the Board must also ensure that a binder is kept with all meeting agendas, approved minutes, and resolutions. This is important because the minutes are a record of what actions the Board took throughout the year. The resolutions as well as any actions documented in the minutes set the policies of the land grant-merced over time. They are the official record which the auditor must go by to ensure that an entity is in compliance with its own operating standards.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-003 Insufficient Accounting Records and Document Retention (Material Weakness) (Continued)

Once records have been properly filed it is important that they are stored in a safe place so that they may be utilized in the future by the Board of Trustees, an auditor or in order to comply with an Inspection of Public Records Act request from a member of the public. The New Mexico Administrative Code (NMAC) sets forth the requirements for how long certain types of records must be maintained by a government entity before they can dispose of them. The NMAC outlines these retention requirements in Title 1, Chapter 15 in various parts. They are known as General Records Retention and Disposition Schedules (GRRDS).

The Guidebook includes a chart for records maintenance which has been compiled from the various parts of the aforementioned NMAC, namely parts 2, 4, and 6. The list was compiled based on the typical records a land grant-merced might be required to keep, for a complete listing of the GRRDS please refer to the NMAC.

In addition, Section 49-1-19 NMSA 1978, states that any member of the board of trustees who fails or refuses to perform any of the duties required to be performed by the board of trustees of the land grant-merced or any member of the board pursuant to Sections 49-1-1 through 49-1-18 NMSA 1978 or by any other law of New Mexico is guilty of a misdemeanor and upon conviction shall be punished by a fine of not less than twenty-five dollars (\$25.00) nor more than one hundred dollars (\$100) or by imprisonment in the county jail for a period of not less than thirty days nor more than ninety days, or both.

Effect: We could not gather sufficient audit evidence to support balances on the financial statements. The audit includes both an adverse and qualified opinion, as certain audit evidence and certain balances were not available and could not be audited.

Cause: The Land Grant has not adopted a formal document retention policy, however, the reasons for not providing the supporting documentation for transactions and the full accounting records is unknown.

Auditor's Recommendation: The Land Grant should develop and formally adopt a document retention policy that is in compliance with the statute.

Management's Response:

Corrective Action(s): The current Board will work with a consultant and / or CPA firm to develop and adopt sufficient accounting records for all transaction types.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: March 31, 2019.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-004 Insufficient Segregation of Duties (Material Weakness)

Condition: During internal controls process walkthroughs, it was noted that the same person who receives the cash receipts also makes the deposit into the bank accounts. It was also noted the same person that receives the invoices for goods or services also writes the checks. There is no formal process for reviewing and approving cash disbursement. There is a lack of controls in place to ensure separation of duties among the Board.

Criteria: A strong system of controls requires separation between custody of assets, recording of transactions, and authorization of transactions. If the Land Grants small number of Board members does not allow for proper separation of duties, supervisory review should be used to compensate for the lack of separation of duties.

Effect: Theft or errors could occur and remain undetected when proper controls are not in place over cash receipts and disbursements.

Cause: Separation of duties over cash receipts and disbursements is difficult to achieve in a small office environment, especially when the work is all performed by Board members. It has also been difficult because the Land Grant has not kept consistent contract accountants over time.

Auditor's Recommendation: Although the Land Grant Board has only five members, steps could be taken to separate incompatible duties. The basic premise is that no one person should have access to both physical assets and the related accounting records or to all phases of a transaction.

Management's Response:

Corrective Action(s): The current Board will retain a CPA firm and/or possible Land Grant employee to assist with separating duties, particularly in the areas of cash receipts and disbursements. The Board plans to hire a business manager, which will improve the Land Grant's ability to separate duties.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: This will be completed by June 30, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-005 Insufficient Internal Controls over Cash Receipts Process (Material Weakness)

Condition: During cash receipts testwork we noted the Land Grant could not provide a listing of cash receipts or documentation to support review and approval of revenues. We could not select a sample to test because no records exist for cash receipts that were not related to the mining lease. We could not test for compliance with the Public Monies Act regarding the requirement to deposit funds within 24 hours after receipt.

Criteria: Per Section 49-1-8 (E) NMSA 1978 Management of Spanish and Mexican grants, those authorized to collect money shall give receipts for the money collected, which receipts shall be in the form prescribed by the Board of Trustees in the bylaws as an official receipt. Additionally, strong internal controls require review and approvals throughout accounting processes. This includes segregation of duties for receiving, depositing and posting receipts. A thorough review and approval of all deposits and retention of related documentation is essential.

Effect: The lack of strong controls surrounding receipts greatly increases the risk for misappropriation of funds.

Cause: The Land Grant does not have sufficient controls over receipts.

Auditor's Recommendation: The Land Grant should develop and implement strong policies and procedures to ensure that receipts are processed, recorded accurately, and approved.

Management Response:

Corrective Action(s): The current Board will develop and implement policies and procedures that result in an effective internal control environment. The Board plans to hire a business manager, which will help with the maintenance of cash receipt and disbursement records.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: June 30, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

**2007-006 Insufficient Internal Controls over the Cash Disbursements Process
(Material Weakness)**

Condition: We selected a random sample of 22 cash disbursements from a population of 199. During testwork, it was noted that the Land Grant was unable to locate and provide invoices to support any expenditures. Due to the lack of documentation, we could not document that invoices paid went through a review and approval process and we could not test the validity of payments.

Criteria: 49-1-14(C) states in part that the Board of Trustees shall keep permanent and legible records capable of audit, and no money or funds shall be paid by the Board of Trustees or by any person authorized to expend money except by written check drawn upon vouchers. Additionally, sound internal control practices require invoice review and approvals prior to a cash disbursement being made.

In addition, Section 49-1-19 NMSA 1978, states that any member of the board of trustees who fails or refuses to perform any of the duties required to be performed by the board of trustees of the land grant-merced or any member of the board pursuant to Sections 49-1-1 through 49-1-18 NMSA 1978 or by any other law of New Mexico is guilty of a misdemeanor and upon conviction shall be punished by a fine of not less than twenty-five dollars (\$25.00) nor more than one hundred dollars (\$100) or by imprisonment in the county jail for a period of not less than thirty days nor more than ninety days, or both.

Effect: Fraudulent payments could go undetected. Payments could be made in error.

Cause: The Land Grant does not have policies and procedures related to processing of invoices. The Land Grant was unable to obtain vendor invoices and related supporting documentation to be audited.

Auditor's Recommendation: It is recommended that the Land Grant develop and implement sound policies and procedures related to the review and approval of vendor invoices that comply with the statute. Additionally, supporting documents must be maintained.

Management Response:

Corrective Action(s): The current Board will develop and implement policies and procedures that will provide effective internal control over the approval of cash disbursements and the retention of supporting documentation. The Board plans to hire a business manager, which will help with the maintenance of cash receipt and disbursement records.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: June 30, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

**2007-007 Insufficient Internal Controls over Travel and Per Diem Expenses
(Material Weakness Non-Compliance)**

Condition: During our testwork over travel and per diem expenditures, we noted the Land Grant did not maintain sufficient records related to the review and approval of travel and per diem. The Land Grant could not provide supporting documentation for all of the 20 travel and per diem related expenditures, totaling \$3,488, selected for audit testwork out of a population of 94. Due to the lack of records being provided for testing of travel, we were not able to determine if review and approval took place prior to the payments being made.

Criteria: 49-1-14 NMSA 1978 states in part that Board members may be authorized per diem and mileage pursuant to the Per Diem and Mileage Act [10-8-1 NMSA 1978]. Section 10-8-4 NMSA 1978 sets forth the rates to be paid. Per 2.42.2.7 (L), "Travel" means: for per diem purposes, being on official business away from home and at least 35 miles from the designated post of duty of the public officer or employee. The Land Grant does not have internal policies and procedures that require a supervisory approval of all travel and per diem vouchers prior to payment.

Effect: The Land Grant is not in compliance with state statutes.

Cause: The timing of the audit relative to when the travel activities occurred contributed to the Land Grant not being able to locate these documents. It could not be determined if the information was lost, misplaced, withheld, or never completed.

Auditor's Recommendation: The Land Grant should design a Travel and Per Diem expenditure review and approval process to ensure compliance with the Per Diem and Mileage Act.

Management's Response:

Corrective Action(s): The current Board will develop policies and procedures that increase internal controls associated with travel and per diem. The Land Grant will also incorporate a review of the State of New Mexico guidelines in order to be current and comply with the Per Diem and Mileage Act. This will be part of the development and implementation of an accounting policy and procedures manual which will be specific to the archiving of supporting documentation.

Responsible person(s): All current Board members and their successors

Timeline of corrective action: June 30, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-008 Insufficient Internal Controls over Investments (Material Weakness)

Condition: The Land Grant does not have an investment policy in place to govern the types of investments allowed. For the year ended June 30, 2013, investments included Certificates of Deposit. In addition, we noted the Land Grant added stocks, bonds, and alternative investments to its investment portfolio. We were unable to test compliance with an investment policy or statute for these purchases of investments. It has been reported to us that the investment purchases are reviewed and approved at public meetings by the Board. However, without the minutes or other documentation we are unable to verify this statement.

Criteria: As per 6-10-10(H) NMSA 1978, a local public body, with the advice and consent of the body charged with the supervision and control of the local public body's respective funds, may invest all sinking funds or money remaining unexpended from the proceeds of any issue of bonds or other negotiable securities of the investor that is entrusted to the local public body's care and custody and all money not immediately necessary for the public uses of the investor and not otherwise invested or deposited in banks, savings and loan associations or credit unions in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor. The contract shall be fully secured by obligations of the United States or other securities backed by the United States having a market value of at least one hundred two percent of the contract. The collateral required for investment in the contracts provided for in this subsection shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with the investment. As used in this subsection, "local public body" includes all political subdivisions of the state and agencies, instrumentalities and institutions thereof; provided that home rule municipalities that prior to July 1, 1994 had enacted ordinances authorizing the investment of repurchase agreements may continue investment in repurchase agreements pursuant to those ordinances.

Effect: The Land Grant's investments may not be in compliance with state statutes or policies.

Cause: The Land Grant has not formally adopted an investment policy or procedures or controls over Investments.

Auditor's Recommendation: The Land Grant should develop and formally adopt an investment policy and implement procedures and internal controls over Investments.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

**2007-008 Insufficient Internal Controls over Investments (Material Weakness)
(Continued)**

Management's Response:

Corrective Action(s): The current Board will retain a financial consultant to assist in developing and adopting an investment policy that incorporates the State of New Mexico pledged collateral requirements. Policies and procedures will also be developed and adopted that will ensure that the Land Grant's investment activity is in compliance with the approved investment policy.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: March 31, 2019.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-009 Insufficient Internal Controls over Capital Assets and Construction in Progress (Material Weakness Non-Compliance)

Condition: During our capital asset testing, we noted that the Land Grant was unable to provide a listing of capital assets as of June 30, 2013. Capital assets owned prior to June 30, 2007 were not included on the trial balance prepared for the June 30, 2013 audit though buildings, building improvements and equipment did exist at June 30, 2007. It was also noted that the Land Grant does not have policies or procedures in place related to capital assets and that a physical inventory of capital assets was not completed as of June 30, 2013.

Criteria: The Audit Act (Section 12-6-10 NMSA 1978) requires agencies to conduct an annual inventory of movable chattels and equipment costing more than \$5,000 and under the control of the governing authority. The inventory shall list the chattels and equipment and the date and cost of acquisition. The inventory shall be certified by the governing authority as to correctness. Each agency shall maintain one copy in its files. Governmental Accounting Standards Board Statement 34 requires the recording and disclosing of all capital assets and related policies material to the governmental entity.

Effect: There is an increased risk that the loss, misuse, or theft of capital assets would be undetected. Capital assets and expenditures may be materially misstated on the financial statements.

Cause: The Land Grant does not have policies or procedures in place to purchase, place in service, account for, assess for impairment, or safeguard capital assets.

Auditor's Recommendation: We recommend the Land Grant procure services to compile a listing of capital assets and to develop and implement policies and procedures to safeguard assets in order to be in compliance with both State Laws and GASB standards surrounding capital assets. The Land Grant should ensure that capital assets are procured, capitalized, inventoried, and reported properly.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

**2007-009 Lack of Internal Controls over Capital Assets and Construction in
Progress (Material Weakness Non-Compliance) (Continued)**

Management's Response:

Corrective Action(s): The current Board will adopt a policy for inventorying assets and will retain a Land Grant employee to ensure the assets are properly inventoried. A comprehensive review and identification of the Land Grant's capital assets needs to be completed, as historical cost information and records are not currently available to support reporting capital assets owned prior to June 30, 2007. The Land Grant will identify any owned capital assets that were acquired in previous years, and if historical cost records are not available, the capital assets will be valued using an appropriate and acceptable method for valuing the assets identified. The Land Grant will also review the State of New Mexico guidelines in order to be current and comply with Subsection A of Section 12-6-10 NMSA 1978 which requires the Land Grant to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year. The Land Grant shall certify the correctness of the inventory after the physical inventory. This will also be included in accounting policy and procedures manual.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: June 30, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-010 Insufficient Internal Controls over Journal Entries (Material Weakness)

Condition: The Land Grant could not provide documentation to show review and approval of journal entries posted to the general ledger.

Criteria: Good accounting practices include a review and approval of journal entries posted to the general ledger.

Effect: The Board may not be aware of transactions being posted to the general ledger.

Cause: The Land Grant does not have a process in place for the processing of journal entries.

Auditor's Recommendation: The Land Grant should develop a process for journal entries, including a standard form, preparation guidelines, posting, and approvals.

Management's Response:

Corrective Action(s): The Land Grant is currently contracting with an accounting consultant to maintain the general ledger, and the Board will develop and adopt policies and procedures to ensure that effective internal controls are implemented to review and approve journal entries posted to the general ledger. The internal controls will be included in the accounting policy and procedures manual.

Responsible person(s): All current Board members and their successor.

Timeline of corrective action: June 30, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-011 Insufficient Internal Controls over Trial Balance, Financial Reconciliations, Component Unit Identification and Reporting (Material Weakness)

Condition: The trial balance provided by the Land Grant was not ready for audit, the primary government's component units were not identified timely, and source documents could not be provided. As a result, the Land Grant had to hire an accounting consultant to assist in trial balance and audit preparation. According to Statements on Auditing Standards, AU Section 325.15, "identification by the auditor of a material misstatement of the financial statements under audit, in circumstances that indicate that the misstatement would not have been detected by the entity's internal control", is considered a material weakness. There were material footnote disclosures and audit adjustments that were made related to the professional services for contract negotiation, accounts payable, accounts receivable, interest receivable, mining revenue receivable, capital assets, and certain other balances.

During our testwork of accounts payable, accounts receivable, interest receivable, advance royalties receivable, and certain other balances, we noted the Land Grant could not produce accurate balances.

Criteria: Good accounting practices require financial statement line items to be reconciled prior to the onset of the audit engagement. Some of the key underlying concepts of AU Section 325 include:

- The auditor cannot be part of a client's internal control because becoming part of a client's internal control impairs auditor independence;
- The auditor's work is independent of the client's internal control over financial reporting, and the auditor cannot be a compensating control for the client; and
- A system of internal control over the financial reporting does not stop at the general ledger or internal financial statements – it includes controls over the presentation of the financial statements. Recording adjustments is considered a significant process of internal control. The Land Grant's system of internal control includes controls over financial statement preparation, including footnote disclosures.

Effect: An internal control weakness in financial reporting exists because material adjustments were identified by the auditor's procedures and not by the Land Grant. As a result, there is the risk that financial statements and disclosures may be materially inaccurate. Insufficient controls over the preparation of financial statements and related disclosures limits the ability to prevent or detect a misstatement in its year-end financial statements. They are not able to provide timely financials to the Board, oversight agencies, and heirs of the Land Grant. This has also caused the Land Grant to lose capital outlay funding from the State and to incur significant costs to complete the audit requirements from the State.

LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

2007-011 Insufficient Internal Controls over Trial Balance, Financial Reconciliations, Component Unit Identification and Reporting (Material Weakness) (Continued)

The audit could not be performed until sufficient records could be found. Adjustments were required to correct balances prior to and during the course of the audit to reflect accruals in the financial statements. The Land Grant did not adhere to Generally Accepted Accounting Principles (GAAP) or Governmental Accounting Standards Board Statements (GASBS). The audit opinion is adverse and qualified, as balances were not accurate and could not be audited.

Cause: The Land Grant does not have controls in place regarding financial reporting and retention of records. They did not provide adequate documentation to their contracted accountants and have not attended adequate training necessary to properly maintain and reconcile these accounts and create disclosures for audit and financial reporting purposes. The Land Grant's 2008 general ledger and subsequent activity was maintained on two sets of QuickBooks, and spreadsheets. Additional bank activity that occurred outside of the Land Grant's bank accounts were not recorded by the Land Grant. All this activity was pieced together by the Land Grant's contracted accountant. Accounts were not reviewed timely or corrected prior to the onset of the audit.

Auditor's Recommendation: We recommend the Land Grant develop and implement a process to ensure that its trial balance is maintained consistently, adjusted, safeguarded, backed up and reconciled on a regular basis. We recommend the Land Grant develop month-end and year-end close and reconciliation processes in order to facilitate and complete a transparent set of financial statements resulting in an efficient and timely audit process.

Management's Response:

Corrective Action(s): Given the amount of time that has passed since the year under audit and given the turnover in Board members and other individuals that have assisted the Land Grant and the water associations in maintaining accounting records and related documents needed for the audit, several of the documents needed to prepare accurate and fully supportable financial statements and note disclosures for fiscal year 2013 could not be located. However, the current Board has contracted with a CPA firm and with an accounting consultant to assist in organizing and preparing the accounting records needed so that in future years accurate and supportable financial statements and note disclosures could be prepared.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: June 30, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-012 Insufficient Internal Controls Over Related Party Transactions and the Governmental Conduct Act (Material Weakness)

Condition: During our review of entity-wide internal controls, fraud inquiries, and testing of transactions, we noted that the Land Grant lacks internal controls and policies over procedures, initiation, voting, approving, and disclosing of related party transactions. In addition, we sent related party disclosure confirmation requests to past and present Board members and only received 2 confirmations back of the 13 sent. Three current and nine past board members did not respond to the confirmation.

Furthermore, there are currently no internal controls or policies in place to ensure compliance with the Governmental Conduct Act, which extended to local government officers and employees (including water associations and Spanish and Mexican land grants).

Criteria: Per AU Section 334.09, the auditor should apply the procedures considered necessary to obtain satisfaction concerning the purpose, nature, and extent of these transactions and their effect on the financial statements. The governmental entity must have procedures to identify and properly account for related party transactions. NMSA 1978, Chapter 10, Article 16 relates to the Governmental Conduct Act.

Effect: Without these controls, the entity is at more risk for fraud, waste, abuse, and noncompliance.

Cause: The Land Grant does not have specific policies or procedures regarding related party transactions.

Auditor's Recommendation: We recommend that the Land Grant formally implement policies and procedures and monitoring to ensure compliance and set a tone of ethical behavior as the standard of conduct for the Land Grant. The policy should include disciplinary action to be taken for violation of policy.

Management's Response:

Corrective Action(s): The current Board will retain a CPA firm or consultant to help develop and implement internal control policies and procedures that will include specific procedures directed towards the identification and reporting of related party transactions and also the Governmental

Conduct Act compliance requirements, and these procedures will be included in the accounting policy and procedures manual.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: June 30, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-013 Insufficient Internal Controls over Information Technology (Material Weakness)

Condition: During our review of entity-wide internal controls and testing of transactions, we noted that the Land Grant lacks internal controls and policies over information technology, covering areas such as: safeguarding assets and information, implementing firewalls and anti-virus software, creating regular backups and maintaining them off-site, password records and required complexity and system of changing, limiting access rights, and safeguarding accounting software files, laptops, desktops, and bank account information.

Criteria: Best practices and a strong internal control system require safeguarding the Land Grant's information and assets.

Effect: Without these controls, the entity is at more risk for identity theft, loss of data, loss of funds, fraud, waste, abuse, and noncompliance.

Cause: The Land Grant does not have a specific policy regarding information technology.

Auditor's Recommendation: We recommend that the Land Grant formally implement policies and procedures over information technology, including a system for monitoring compliance and safety.

Management's Response:

Corrective Action(s): The current Board will retain an Information Technology consultant to help develop and implement internal control procedures that will include specific procedures directed towards the control and safeguarding of computers and hard drives and to set up the needed protection as described in this finding.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: June 30, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-014 Lack of Ethics Policy (Material Weakness)

Condition: During our review of entity-wide internal controls, it was noted that the Land Grant lacks a code of conduct or ethics policy to set the tone for standard of conduct.

Criteria: The foundation for internal controls and sound practices require integrity and ethical values as the standard of conduct for the Land Grant and financial reporting.

Effect: Without an ethics policy or code of conduct, violations or departures from policy cannot be given a clear and appropriate disciplinary action. Without an ethics policy or code of conduct to guide behavior, the Land Grant is at risk of an inappropriate ethical tone.

Cause: The Land Grant does not have a specific policy regarding ethics or code of conduct.

Auditor's Recommendation: We recommend that the Land Grant formally implement an ethics policy or code of conduct to set a tone of ethical behavior as the standard of conduct for the Land Grant. The policy should include disciplinary action to be taken for violation of policy.

Management's Response:

Corrective Action(s): The current Board will consult with legal counsel to adopt an ethics or code of conduct policy.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: March 31, 2019.

LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

2007-015 Insufficient Practices for the Identification, Mitigation and Monitoring of Risks (Material Weakness)

Condition: During our review of internal controls surrounding the Land Grant's risk assessment process, we noted that mechanisms are not in place to identify risks applicable to the Land Grant and financial reporting objectives, including fraud risk, and then mitigate and monitor them.

Criteria: Good internal control practices require that the Board have a process in place to identify risks potentially impacting the achievement of financial reporting objectives.

Effect: Without a risk assessment approach to identify potential risks applicable to the Land Grant, the Land Grant is vulnerable to errors and/or fraud. Without a proactive risk assessment, errors or fraud could occur and go undetected.

Cause: The Board's approach to risk has historically been reactive rather than proactive. They do not proactively evaluate risks applicable to the Land Grant.

Auditor's Recommendation: It is recommended that the Board of Trustees establish a practice for the identification of risks affecting the Land Grant. Mechanisms that should be in place to identify risks applicable to the Land Grant and financial reporting objectives include a) changes in operating, economic, and regulatory environments; b) participation in new programs and activities. The Land Grant should consider routine events or activities that may affect the Land Grant's ability to meet its objectives as well as non-routine events. The Land Grant should develop forward looking mechanisms to provide early warning of potential risks relevant to preparation of financial statements. Any risks related to the ability to initiate and process unauthorized transactions should be appropriately identified.

Fraud assessments should be part of the risk identification process. The assessment of fraud risk should consider incentives and pressures, attitudes, and rationalizations as well as the opportunity to commit fraud. The assessment of fraud risk should consider risk factors relevant to its activities and to the geographic region in which the Land Grant operates. Plans should be implemented to mitigate identified risks and then monitor them.

Management's Response:

Corrective Action(s): The current Board will retain a CPA firm or consultant to develop policies and procedures for risk assessments.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: March 31, 2019.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

**2007-017 Unavailable Bank Statements and Related Bank Reconciliations
(Material Weakness)**

Condition:

During our testing of cash balances, we noted certain bank statements and bank reconciliations were not available and the related general ledger transactional activity was not recorded in 2013. Additionally, bank statements and the related general ledger transactional activity were not available for each of the water associations (Discretely Presented Component Units: Bibo, Moquino and Seboyeta).

Criteria: 6-10-2 NMSA 1978 states that it is the duty of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business. Except as may be otherwise provided by law, the cash record is a public record and is open to public inspection.

Effect: Lack of recording and reconciliation increases the risk that public funds will be lost, stolen or used for unauthorized purposes. This has also caused the Land Grant to lose capital outlay funding from the State and to incur significant costs to complete the audit requirements from the State.

Cause: Lack of a formal bank reconciliation and accounting policies created an environment that allowed these bank accounts to not be recorded in the general ledger and reconciled.

Auditor's Recommendation: We recommend the Board institute a formal bank reconciliation policy and bank statement retention policy.

Management's Response:

Corrective Action(s): Given the amount of time that has passed since the year under audit and given the turnover in Board members and other individuals that have assisted the Land Grant and the water associations in maintaining accounting records and related documents needed for the audit, some of the Land Grant bank account balances and bank activity were not recorded in the general ledger when the current Board began preparing for the audit.

The current Board requested the missing bank statements from the financial institutions, but certain bank statements could not be obtained since the dates of the statements requested were older than their file retention period of seven years. Therefore, not all bank statements could be obtained to complete bank reconciliations for all Land Grant accounts.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

**2007-017 Unavailable Bank Statements and Related Bank Reconciliations
(Material Weakness) (Continued)**

The current Board has contracted with a CPA firm and with an accounting consultant to assist in organizing and maintaining the bank statements for all accounts so that in future years the accounting records will include completed bank reconciliations for all bank accounts.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: June 30, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-018 Untimely Bank Reconciliations (Material Weakness)

Condition: We requested monthly reconciliations of cash and investment accounts. However, the Board was unable to provide reconciliations for the audit. As a result, they contracted with an external accountant to reconcile the bank accounts for which monthly statements were available.

Criteria: Best practices require that bank reconciliations should be performed monthly in order to enhance timeliness of the financial information as well as timely authorization of corrections necessary. To fully comply with NM State Statutes, the Land Grant must provide their full books and records for audit.

Section 6-10-2 NMSA 1978 states that it is the duty of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business. Except as may be otherwise provided by law, the cash record is a public record and is open to public inspection.

Section 49-1-12 (B) NMSA 1978 states the Board of Trustees shall annually make public a report of all its transactions for that year. The report shall include agendas, minutes, actions taken and all financial transactions. The report shall be maintained in a public place and available for public review.

Section 49-1-14 (C) NMSA 1978 states the Board of Trustees and the treasurer shall keep permanent and legible records capable of audit, and no money or funds shall be paid by the Board of Trustees or by any person authorized to expend money except by written check drawn upon vouchers.

Section 14-2-5 NMSA 1978 Inspection of Public Records Act (IPRA) indicates that the public is entitled to the greatest possible information and documents are to be made available to the public.

Effect: Potential fraudulent disbursement of Land Grant funds or theft of cash receipts could go undetected for long periods of time if bank and investment accounts are not reconciled and approved in a timely manner.

Cause: Unknown

Auditor's Recommendation: We recommend the Land Grant perform bank reconciliations on a monthly basis and make any necessary corrections at the time of reconciliation. For future years, all supporting documentation for accounts should be provided with the reconciliations.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-018 Untimely Bank Reconciliations (Material Weakness) (Continued)

Management's Response:

Corrective Action(s): To prepare for the audit, the current Board contracted with a CPA firm to assist with preparing the bank reconciliations. While preparing for the audit, the Board determined that certain bank statements could not be located.

The current Board has contracted with a CPA firm and with an accounting consultant to assist in organizing and maintaining the bank statements for all accounts so that in future years the accounting records will include completed bank reconciliations for all bank accounts.

Responsible person(s): All current Board members and their successors

Timeline of corrective action: June 30, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-020 Budgetary Compliance (Material Weakness Non-Compliance)

Condition: The Land Grant was not able to find a copy of the original budget, final budget, or any budget adjustment requests. It was not possible to determine if the Land Grant has complied with DFA LGD's budget requirements.

Criteria: 6-6-2 NMSA 1978 requires that the Land Grant submit a proposed budget to the Local Government Division on or by June 1 of each year. LGD is to then approve and certify the budget by July 1 of each year. The budget should then be adjusted as needed by Board Resolution and LGD approval. In addition, the submittal of quarterly financial reports to the LGD is required.

Effect: The Land Grant is not in compliance with budget statutes.

Cause: Unknown.

Auditor's Recommendation: The Land Grant Board of Trustees should approve and submit their annual budget to LGD timely. Additionally, when significant changes in financial condition occur, the Land Grant should approve and submit Budget Adjustment Requests to the LGD.

Management Response:

Corrective Action(s): The current Board will retain a CPA firm or consultant to help develop and implement budgeting policies and procedures so that budgets are prepared and used in accordance with the applicable budget requirements going forward. These budget requirements will be included in the accounting policy and procedures manual, and the Board will also include a budget review as a standing agenda item in each Board meeting.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: June 30, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-021 Board Minutes (Material Weakness Non-Compliance)

Condition: The Land Grant does not prepare draft minutes within ten working days, properly maintain hardcopy and/or electronic copies of the prepared drafts. Additionally, as we were not able to obtain any final Board approved minutes for fiscal year 2013 or most final Board approved minutes for the time period of July 1, 2009 to present (to review for possible subsequent events), we were unable to determine, in most cases, if the Board did approve all the Board minutes from 2013 to current.

It has been reported by Board members that the minutes for all meetings for all years do exist. We requested the minutes of all meetings through the date of completion of the audit almost weekly since January of 2016, however, the Board was unable to obtain all the minutes for the audit as of the date of this report. Below is a summary and status of Board minutes provided to the auditors by past and current members of the Board of Trustees.

Fiscal year	Minutes provided to auditors and status
2013	1 meeting minutes (complete and signed) 2 meeting minutes (unsigned)
2014	No meeting minutes provided
2015	2 meeting minutes (unofficial drafts)
2016	3 meeting minutes (unofficial drafts)

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-021 Board Minutes (Material Weakness Non-Compliance) (Continued)

Criteria: The Open Meetings Act (OMA), specifically Section 10-15-1 NMSA 1978 requires that “the Board, commission or other policymaking body shall keep written minutes of all its meetings. The minutes shall include at a minimum the date, time and place of the meeting, the names of members in attendance and those absent, the substance of the proposals considered and a record of any decisions and votes taken that show how each member voted.... Draft minutes shall be prepared within ten working days after the meeting and shall be approved, amended or disapproved at the next meeting where a quorum is present. Minutes shall not become official until approved by the policy making body.”

Additionally, 41-1-13(C) states in part that the secretary of the Board shall reduce to writing, in a book kept for that purpose, minutes of the business transacted at each meeting of the Board.

Effect: The Land Grant is in noncompliance with the OMA provisions relating to the preparation of Board of Trustee minutes. The official actions of the Land Grant are not fully transparent to the public. The Land Grant’s minutes are not readily available for public inspection as the Land Grant does not prepare and approve them in a timely fashion.

Cause: For the minutes that do exist and were not provided to the contract accountants and auditors, it is unknown why they were not provided to the contract accountants and auditors.

Auditor’s Recommendation: The Land Grant should prepare minutes that comply with the requirements of the OMA, maintain minutes (draft and Board approved) on-file, and have them available when requested.

Management’s Response:

Corrective Action(s): The meeting notes/minutes that could be located were provided to the auditors. Given the amount of time that has passed since the year under audit and given the turnover in Board members and other individuals that have assisted the Land Grant and the water associations in documenting and maintaining the Board meeting minutes, not all Board meeting minutes could be located. The current Board is implementing policies and procedures that ensure that minutes are documented and maintained for all current and future Board meetings.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-021 Board Minutes (Material Weakness Non-Compliance) (Continued)

The current Board also determined that Board minutes made available to the auditors in some instances were not approved. The process of approving the outstanding Board minutes will be addressed in future Board meetings no later than December 31, 2016. The Board plans to meet and approve all outstanding minutes in one meeting.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: June 30, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-022 Liability Insurance Coverage (Non-Compliance)

Condition: The Land Grant does not have insurance coverage for items not waived under the provisions of the Tort Claims Act or any liability imposed under Section 41-4-4 NMSA 1978.

Criteria: 41-4-20 NMSA states that it shall be the duty of governmental entities to cover every risk for which immunity has been waived under the provisions of the Tort Claims Act or any liability imposed under Section 41-4-4 NMSA 1978 as follows:

1. local public bodies shall cover every such risk or liability as follows:
 - a. for a risk for which immunity has been waived pursuant to Sections 41-4-9, 41-4-10 and 41-4-12 NMSA 1978, the local public body shall cover the risk, and for any commercially uninsurable risk for which public liability fund coverage is made available, the local public body may insure the risk in accordance with the provisions of Section 41-4-25 NMSA 1978;
 - b. for excess liability for damages arising under and subject to the substantive law of a jurisdiction other than New Mexico, including but not limited to other states, territories and possessions and the United States of America, the local public body shall provide coverage in accordance with the provisions of Subsection B of Section 41-4-27 [41-4-28] NMSA 1978, if coverage is available; and
 - c. (for a risk or liability not covered pursuant to Subparagraphs (a) and (b) of this paragraph, the local public body shall purchase insurance, establish reserves or provide a combination of insurance and reserves or provide insurance in any other manner authorized by law; and

Effect: The Board is uninsured and exposed to liabilities not waived by the Tort Claims Act.

Cause: The Land Grant has not purchased required coverage.

Auditor's Recommendation: The Land Grant should purchase required coverage immediately.

Management's Response:

Corrective Action(s): The current Board will consult with an insurance professional to determine the additional insurance coverage needed and the Board will ensure the additional coverage is obtained through the New Mexico Risk Management Division.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: June 30, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-024 IRS Form 1099s and W9s (Non-Compliance)

Condition: The Land Grant could not provide support that it issued vendors IRS Form 1099s and retained W-9s on file as required.

Criteria: The IRS requires issuance of 1099s to individuals, partnerships, LLCs, Limited Partnerships or estates that have been paid over \$600.

Effect: The Board is not in compliance with IRS regulations and could be subject to penalties.

Cause: Unknown

Auditor's Recommendation: The Land Grant should complete and file all IRS and New Mexico Taxation & Revenue Department forms as required in order to be in compliance and avoid penalties.

Management's Response:

Corrective Action(s): The current Board will retain a CPA firm and/or tax attorney to ensure proper compliance with applicable IRS regulations. The current Board is currently contracting with an accounting consultant to maintain the general ledger accounting records for the Land Grant and the water associations, and the Board will ensure that IRS Forms 1099 and W-9 are properly prepared, submitted and maintained in accordance with the IRS requirements.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: This task has been completed as of January 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-025 Payments of New Mexico Gross Receipts Taxes (NMGRT) by Water Associations (Component Units) (Material Weakness Non-Compliance)

Condition: The Water Associations (component units) have failed to pay NMGRT for sales of water to Land Grant customers. The estimated payable to New Mexico Taxation & Revenue Department has been reported to us to be in excess of \$40,000 as of the date of this audit report.

Criteria: 7-9-4 (A) NMSA 1978 states for the privilege of engaging in business...gross receipts tax is imposed on any person engaging in business in New Mexico. Per 7-9-3 (I) "person" includes cooperatives, such as the water utilities.

Effect: The water utilities entities have a cumulative liability for the unpaid tax and related penalties and interest.

Cause: Unknown

Auditor's Recommendation: The Land Grant should pay any outstanding NMGRT and related penalties and interest and continue their current established process with a contracted accountant to ensure that they are paid on time in the future.

Management's Response:

Corrective Action(s): The current Board will retain a CPA firm and/or consult with a tax attorney to research the water associations' gross receipts tax liability matters and to resolve any outstanding tax obligations. The Board will also direct the water associations to ensure that all collected New Mexico gross receipts taxes are paid to the New Mexico Taxation and Revenue Department. In addition, the Land Grant should consider entering New Mexico Taxation and Revenue Department's managed audit program.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: March 31, 2019.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-026 Security of Records (Material Weakness Non-Compliance)

Condition: The Land Grant does not have sufficient control over records. During a site visit we noted that the filing cabinets where records were expected to be stored at had been opened and records removed without approval or knowledge of Board members. It was later determined that a vendor of the Land Grant had custody of certain records, however, it is not known if the vendor turned all the records from the filing cabinets to the contract accountants for audit preparation.

Criteria: Good accounting practices include security of and control of records.

Effect: By not knowing where the records are, the Land Grant is unable to provide documents for audit.

Cause: The Land Grant does not have a system in place for securing or archiving documents. This has also caused the Land Grant to lose capital outlay funding from the State and to incur significant costs to complete the audit requirements from the State.

Auditor's Recommendation: The Land Grant should locate and archive all documents for audit and other purposes.

Management's Response:

Corrective Action(s): The current Board will either retain a Land Grant employee to serve as a records custodian or will contract with a third party to scan and retain all records in electronic form. The Board will develop policies and procedures to ensure that the Land Grant's financial and other records are filed, maintained and secured.

Given the numerous transitions in Board members and others that have assisted the Land Grant and the water associations since fiscal year 2013, the Land Grant had difficulty locating and securing various records needed for the fiscal year 2013 audit. However, the majority of the records that were maintained and located were scanned and are archived electronically.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: June 30, 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-027 Transitioning Between Boards (Significant Deficiency)

Condition: The Land Grant has no system in place to ensure a smooth transition between Boards. All five Board members positions are up for election every two years, with no rotation. We have also noted that although former Board members have indicated they turned over all records to the next Board, many documents are still missing. Without a transition plan, capital plan, and strategic plan, operating the Land Grant's business from Board term to Board term becomes very difficult.

Criteria: Good governance includes a process to efficiently transition between Boards. The New Mexico Land Grant Council's NM Land Grant Governance Guidebook 2011 states that each land grant-merced must also designate terms of service for the Board of Trustees in its by-laws. Terms should be for either 2 or 4 years and therefore elections should be held accordingly. Land grants-mercedes can choose to stagger the terms for Trustees so that an entire Board is not replaced at every election cycle.

Effect: The lack of a transition process has led to the Board to not be able to provide documentation for audit.

Cause: The Land Grant does not have a transition process.

Auditor's Recommendation: The Land Grant should meet to create long-term planning and operational documents, such as a Capital Improvement Plan, Strategic Planning, Master Plan, etc. We also recommend that the Board members be elected in rotation – see Land Grant Handbook 2011 version for recommended processes on this matter.

Management's Response:

Corrective Action(s): The current Board understands the issues involved with the transitioning of Board members, as the Board elects all five positions every two years. A plan to stagger terms by increasing the term length for part of the Board will have to be considered and the bylaws will need to be revised. This issue will be addressed by the current Land Grant Board before their term is over. Also, while efforts have been made to locate the missing documents referred to in this finding, the current Board has not yet been able to locate them.

Responsible person(s): All current Board members and their successors

Timeline of corrective action: March 31, 2019.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-028 Board Treasurer and Others Not Bonded (Non-Compliance)

Condition: The Land Grant has not received a surety bond on the Treasurer and other members that collect money, which could potentially be any of the members.

Criteria: 49-1-8(A) NMSA 1978 states in part that the treasurer shall perform such duties as may be required by the Board and shall furnish to the Board a good and sufficient surety bond and 49-18(C) states in part that the amount of the bond required of the Treasurer and his successor shall at all times be a sum of at least double the amount received by and deposited in the bank by the Treasurer. Additionally, 49-1-8(D) states in part that in the event the Board of Trustee's delegates any other of its members to collect money due the land grant-merced, that person shall be bonded in the same manner as is provided in this section for the bonding of the Treasurer.

Effect: The Board has exposure to losses due to members that collect money not being bonded.

Cause: The Land Grant has not obtained required surety bonds for members.

Auditor's Recommendation: The Land Grant should get members bonded and establish a process to ensure that future members are bonded as soon as they take office.

Management's Response:

Corrective Action(s): The current Board will retain legal counsel or assistance from the New Mexico Land Grant Council to develop and adopt a policy that ensures all Board members are bonded after taking office. The Board will also identify and contact companies that provide bonding for Board members, and the Board will ensure that the appropriate surety bonding is maintained for its Board members.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: Bonding was obtained in May of 2018.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-029 Issuance of Receipts for Money Collected (Non-Compliance)

Condition: The Land Grant did not provide evidence that receipts are issued for money collected.

Criteria: 49-1-8(E) NMSA 1978 states in part that those authorized to collect money shall give receipts for the money collected.

Effect: By not issuing receipts, the Land Grant is exposed to the risk of collections of money that may be misappropriated and not make it into Land Grant accounts for benefit of the heirs.

Cause: The timing of the audit relative to when the cash collections occurred contributed to the Land Grant not being able to locate these documents. It could not be determined if the information was lost, misplaced, withheld or was never there to begin with.

Auditor's Recommendation: The Land Grant should begin issuing receipts for money collected.

Management's Response:

Corrective Action(s): The current Board will consult with a CPA firm or seek assistance from the New Mexico Land Grant Council to develop and adopt a policy that requires receipts to be issued when cash is received. The accounting policies and procedures manual will address the collection of payments which will include the issuance of receipts and the retention of those receipt records.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: This process was corrected as of April 2017.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-030 Board of Trustees Meetings (Material Weakness)

Condition: We were unable to obtain the 2013 final approved Board minutes and therefore we could not confirm that required quarterly meetings were held.

Criteria: 49-1-9 NMSA 1978 states in part that regular meetings of the Board of Trustees shall be held no less than quarterly and in a public place as the Board may determine in accordance with the bylaws. The time and place within the land grant-merced at least ten days prior to the meeting. Special meetings may be held at any time on call of the president, with five days' notice being given to each member.

Effect: By not being able to provide final approved Board for audit, the Land Grant could also not provide evidence that the regular Board meetings were held.

Cause: The timing of the audit relative to when the meeting occurred contributed to the Land Grant not being able to locate these documents. It could not be determined if the information was lost, misplaced, withheld or was never there to begin with.

Auditor's Recommendation: The Land Grant should begin documenting and archiving all documents in order to confirm compliance for future audits.

Management's Response:

Corrective Action(s): The current Board typically meets more than once per quarter and significant efforts are made to notify the Land Grant members of the Board meetings. The Land Grant Board was able to locate three copies of Board meeting notes/minutes from 2013. Additional copies of Board meeting notes/minutes were also located for the subsequent years. The meeting notes/minutes that could be located were provided to the auditors. Given the amount of time that has passed since the year under audit and given the turnover in Board members and other individuals that have assisted the Land Grant and the water associations in documenting and maintaining the Board meeting minutes, not all Board meeting minutes could be located. The current Board is implementing policies and procedures that ensure that minutes are documented, maintained and approved for all current and future Board meetings.

The Board agrees that the minutes made available to the auditors in some instances were not approved. The process of approving the outstanding Board minutes will be addressed in future Board meetings no later than December 31, 2016. The Board plans to meet and approve all outstanding minutes in one meeting.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: This process was corrected in April of 2017.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-031 Annual Report (Material Weakness Non-Compliance)

Condition: We were unable to obtain copies of the required annual report.

Criteria: 49-1-12(B) NMSA 1978 states in part that the Board of Trustees shall annually make public a report of all its transactions for that year. The report shall include agendas, minutes, actions taken and all financial transactions. The report shall be maintained in a public place and available for public view.

Effect: By not being able to provide annual reports, the Board may appear to the heirs and other interested parties, that the Land Grant is not being completely transparent. Fraud or errors may occur without a thorough review and approval process of the transactions. This has also caused the Land Grant to lose capital outlay funding from the State and to incur significant costs to complete the audit requirements from the State.

Cause: The timing of the audit relative to when the meeting occurred contributed to the Land Grant not being able to locate these documents. It could not be determined if the information was lost, misplaced, withheld or was never there to begin with.

Auditor's Recommendation: The Land Grant should ensure compliance with the statute in the future.

Management's Response:

Corrective Action(s): The current Board will seek assistance from the New Mexico Land Grant Council to develop and adopt a policy for creating annual reports, and the current Board will contract with a CPA firm or consultant to assist with the financial component of the annual report. This report will also be added to the Board President's required actions.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: March 31, 2019.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-032 Open Meetings Act Resolution (Material Weakness Non-Compliance)

Condition: We were unable to obtain copies of an Open Meetings Act Resolution or related agendas, postings, or final approved minutes for FY 2013.

Criteria: 49-1-9 NMSA 1978 states in part that regular meetings of the Board of Trustees shall be held no less than quarterly and in a public place as the Board may determine in accordance with the by-laws. The time and place within the land grant-merced at least ten days prior to the meeting. Special meetings may be held at any time on call of the president, with five days' notice being given to each member.

10-15-4 NMSA 1978 provides that no resolution, rule, regulation, ordinance or action of any Board, commission, committee or other policy making body shall be valid unless taken or made at a meeting held in accordance with the requirements of Section 10-15-1 NMSA 1978.

49-1-9 NMSA 1978 requires that land grants give at least ten (10) days advance public notice of regular meetings and five (5) days advance public notice of special meetings and calls for meeting notices to be in both English and Spanish.

Effect: By not being able to provide approved minutes for audit, the Land Grant could also not provide evidence that the regular meetings were held. Any person violating any of the provisions of Section 10-15-1 or 10-15-2 NMSA 1978 is guilty of a misdemeanor and upon conviction shall be punished by a fine of not more than five hundred dollars (\$500) for each offense.

Cause: The timing of the audit relative to when the meeting occurred contributed to the Land Grant not being able to locate these documents. It could not be determined if the information was lost, misplaced, withheld or was never there to begin with.

Auditor's Recommendation: The Land Grant should designate a public records custodian to be in compliance.

Management's Response:

Corrective Action(s): The current Board passed an Open Meetings Act Resolution in February 2017 to comply with this requirement. The current Board will also either hire a Land Grant employee or designate a Board member to become the Land Grant's public records custodian. The public records custodian tasks will include archiving of agendas, postings and minutes. The public records custodian will also make all records available to the public for inspection.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: This was done in April 2017.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-033 Public Records Custodian (Material Weakness Non-Compliance)

Condition: We were unable to obtain approved minutes and therefore we could not confirm that the Land Grant had a public records custodian in fiscal year 2013.

Criteria: 14-2-1(A) NMSA 1978 states that every person has a right to inspect public records on this state with certain exceptions related to:

- A. Every person has a right to inspect public records of this state except:
- 1) records pertaining to physical or mental examinations and medical treatment of persons confined to an institution;
 - 2) letters of reference concerning employment, licensing or permits;
 - 3) letters or memoranda that are matters of opinion in personnel files or students' cumulative files;
 - 4) law enforcement records that reveal confidential sources, methods, information or individuals accused but not charged with a crime. Law enforcement records include evidence in any form received or compiled in connection with a criminal investigation or prosecution by a law enforcement or prosecuting agency, including inactive matters or closed investigations to the extent that they contain the information listed in this paragraph;
 - 5) as provided by the Confidential Materials Act [14-3A-1 and 14-3A-2 NMSA 1978];
 - 6) trade secrets, attorney-client privileged information and long-range or strategic business plans of public hospitals discussed in a properly closed meeting;
 - 7) tactical response plans or procedures prepared for or by the state or a political subdivision of the state, the publication of which could reveal specific vulnerabilities, risk assessments or tactical emergency security procedures that could be used to facilitate the planning or execution of a terrorist attack; and
 - 8) as otherwise provided by law.

14-2-1(B) states that protected personal identifier information contained in public records may be redacted by a public body before inspection or copying of a record. The presence of protected personal identifier information on a record does not exempt the record from inspection. Un-redacted records that contain protected personal identifier information shall not be made available on publicly accessible web sites operated by or managed on behalf of a public body.

Effect: The Land Grant is not in compliance with the statutes and information is not available for inspection.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

**2007-033 Public Records Custodian (Material Weakness Non-Compliance)
(Continued)**

Cause: The Land Grant did not designate a public records custodian for fiscal year 2013.

Auditor's Recommendation: The Land Grant should designate a public records custodian and make public records available for inspection. Since the loss of records has been so devastating to the audit process and therefore the audit opinion is disclaimed, this compliance should be monitored very carefully by Land Grant members.

Management's Response:

Corrective Action(s): The current Board will either hire a Land Grant employee or designate a Board member to become the Land Grant's public records custodian. The public records custodian tasks will include archiving of agendas, postings and minutes. The public records custodian will also make all records available to the public for inspection.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: March 31, 2019.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-034 Elections (Material Weakness Non-Compliance)

Condition: We were unable to determine if the Land Grant complied with the requirements of the statutes related to elections of Board of Trustees due to lack of documentation.

Criteria: 49-1-5 Election of members of Board of Trustees; voters' qualifications; registration sets forth the specifics on how elections are to be conducted:

- A. Elections for the Board of Trustees shall be held on the first Monday in April or on a day designated in the bylaws, either every two or every four years as specified in the bylaws of the land grant-merced.
- B. All qualified voting members of the land grant-merced are qualified to vote and may vote for Trustees as specified in the land grant-merced bylaws.
- C. The registration of qualified voting members shall be conducted in the manner prescribed in the land grant-merced bylaws. The secretary of the Board of Trustees shall maintain the registration books. Registration shall be closed beginning fifteen days before an election and reopened on the Monday following the election.
- D. The registration books compiled before each election shall be used at that election. No person shall vote at the election unless duly registered in the books, and no ballot of any unregistered person shall be counted or canvassed.
- E. A candidate for the Board of Trustees shall file a declaration of candidacy with the secretary of the Board of Trustees. The period when declarations of candidacy may be filed shall begin on the day the proclamation calling the election is published and shall remain open for at least ten days.
- F. Whenever an election is to be called or is required by law, the Board of Trustees shall by resolution issue a public proclamation calling the election. The proclamation shall specify:
 - 1) the date on which the election will be held;
 - 2) the purpose for which the election is called;
 - 3) if positions on the Board of Trustees are to be filled, the date and time by which declarations of candidacy are to be filed;
 - 4) if a question is to be voted upon, the text of that question;
 - 5) the location of each polling place in the land grant-merced;
 - 6) the hours that each polling place will be open; and
 - 7) the date and time of the closing of the registration books.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-034 Elections (Material Weakness Non-Compliance) (Continued)

- G. Not less than thirty days nor more than forty-five days before the date of the election, the Board of Trustees shall publish in Spanish and English the proclamation in a local newspaper of general circulation available within the boundaries of the land grant-merced and post the proclamation in at least five public places within the land grant-merced.
- H. The Board of Trustees shall appoint one election judge and at least two election clerks for each polling place. The election judge shall also be present for the canvass of the vote. No person shall be qualified for appointment or service as an election clerk or judge who is a spouse, parent, child, brother or sister of any candidate to be voted for at the election.
- I. The Board of Trustees shall provide in the bylaws for the forms and procedures by which the land grant-merced elections are conducted. If the Board of Trustees chooses to provide for early or absentee voting, it shall specify in its bylaws the procedures by which early or absentee voting shall be conducted.

Effect: The Land Grant may not be in compliance with State statute.

Cause: There were no records available to confirm that the Land Grant conducted the 2013 election in accordance with the State statute.

Auditor's Recommendation: The Land Grant should maintain all necessary records to support to elections in accordance with the State statute.

Management's Response:

Corrective Action(s): There is no evidence to suggest the Land Grant has failed to comply with the statute related to the election of the fiscal year 2013 Board. The current Board will continue to work with the county clerk and/or Secretary of State just as prior Boards have to ensure that all election requirements continue to be met.

Auditor Rebuttal: Although there is no evidence to suggest the Land Grant failed to comply with election laws, there is also no evidence that they did comply with election laws. The Land Grant should maintain all necessary records to support election results.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: March 31, 2019.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-035 By-Laws (Material Weakness Non-Compliance)

Condition: The by-laws provided for audit are dated 1979 when the Land Grant was operating as a non-profit entity. The Land Grant became a political subdivision of the State in 2004 and is considered to be a local public body. According to Board minutes from fiscal year 2011 and 2012, the Board formed a committee to work on the by-laws and it appears as though some progress was made, it does not appear as though revised by-laws were completed.

Criteria: 49-1-3 states that the Board is to make by-laws, rules and regulations, not in conflict with the constitution and laws of the United States or the state of New Mexico as may be necessary for the protection, improvement and management of the common lands and real estate and for the use and enjoyment of the common lands and of the common waters of the land grant-merced.

Effect: The Land Grant is operating with outdated by-laws that could be in conflict with the constitution and laws of the United States or the state of New Mexico, which have changed since 1979.

Cause: The Land Grant has failed to update their by-laws or if they have, they were not provided for the audit.

Auditor's Recommendation: The Land Grant should update by-laws in order to be in compliance with the statute and best serve the heirs to the Land Grant.

Management's Response:

Corrective Action(s): The current Board will seek assistance from the New Mexico Land Grant Council and legal counsel to update the existing Land Grant bylaws to comply with the applicable requirements.

Responsible person(s): All current Board members and their successors.

Timeline of corrective action: March 31, 2019.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2007-036 Environmental Remediation (Material Weakness)

Condition: As noted in footnote six to the financial statements, there are currently certain known facts on the Land Grant's two largest closed mines. However, there is some uncertainty as to the full scope of environmental remediation on the Land Grant. This evaluation should be completed in order to identify any commitments or contingencies and proper GASB No. 49 disclosures regarding environmental remediation.

Criteria: Statement No. 49 of the GASB, Accounting and Financial Reporting for Pollution Remediation Obligations addresses the standards for pollution (including contamination) remediation obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and changes. Once an obligating event occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or in certain cases, capitalized.

Effect: Financial statement disclosures may be incomplete.

Cause: The Land Grant has not currently determined the status of all environmental remediation related to former mining activity.

Auditor's Recommendation: We recommend a full review of the status of environmental remediation related to past mining activity to best serve the heirs to the Land Grant and to ensure the financial statements are complete and accurate in accordance with GASB No. 49.

Management's Response:

Corrective Action(s): The current Board will seek legal counsel and consult with United Nuclear/General Electric to determine the status of said environmental remediation which was addressed when the State of New Mexico filed a lawsuit for the reclamation. The Land Grant Board will research and evaluate whether or not there is a potential need for environmental remediation that would result in either commitments or contingencies that would need to be reported in the financial statements and note disclosures. To complete the evaluation, the Board will also consider seeking the assistance of the New Mexico Environmental Department. The Board is committed to identify, evaluate and remedy any existing environmental issues in order to protect future land grant members and land grant members' livestock.

Responsible person(s): All current Board members and their successors

Timeline of corrective action: March 31, 2019.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

2010-001 Procurement Violations (Material Weakness Non-Compliance)

Condition: During our testing of compliance over the State's Procurement Code, we noted the Land Grant did not comply with State's Procurement Code when procuring legal services in the amount of \$33,667, and other construction and unknown services in the amount of \$1,954,132.

Criteria: Per 13-1-74 NMSA 1978 (as applicable during the time period July 1, 2012 to June 30, 2013), "Procurement" means A. purchasing, renting, leasing, lease purchasing or otherwise acquiring items of tangible personal property, services or construction; and B. all procurement functions, including but not limited to preparation of specifications, solicitation of sources, qualification or disqualification of sources, preparation and award of contract and contract administration.

Procurement of professional services over \$50,000 - Competitive Sealed Bids: As per 13-1-102, all procurement shall be achieved by competitive sealed bid pursuant to Sections 13-1-103 through 13-1-110 NMSA 1978, except procurement achieved pursuant to the following sections of the Procurement Code [Sections 13-1-28 through 13-1-199 NMSA 1978]:

- A. Sections 13-1-111 through 13-1-122 NMSA 1978, competitive sealed proposals;
- B. Section 13-1-125 NMSA 1978, small purchases;
- C. Section 13-1-126 NMSA 1978, sole source procurement;
- D. Section 13-1-127 NMSA 1978, emergency procurements;
- E. Section 13-1-129 NMSA 1978, existing contracts;
- F. Section 13-1-130 NMSA 1978, purchases from antipoverty program businesses;
and

Effect: The Land Grant violated the State of New Mexico's procurement code and may not have obtained the best price for the items received during the year.

Cause: Although the exact cause is unknown, the Land Grant did not have policies and procedures over procurement.

Auditor's Recommendation: We recommend the Land Grant implement policies and procedures as soon as possible to ensure compliance with procurement requirements pertain to each procurement that occurs during the fiscal year.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

**2010-001 Procurement Violations (Material Weakness Non-Compliance)
(Continued)**

Management Response:

Corrective Action(s): The Board will comply with all relevant procurement standards.

Responsible person(s): The Board.

Timeline of corrective action: This process was corrected as of November 2017.

**LA MERCED DEL PUEBLO DE CEBOLLETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

Findings in Accordance with OMB Circular A-133

2013-001 Federal Audit Clearinghouse Submission (Significant Deficiency)

Funding Agency: U.S. Department of Housing and Urban Development
Title: Community Development Block Grant
CFDA: 14.228
Award Period: Unknown

Condition: The Land Grant did not file the required audit package and data collection form to the Federal Audit Clearinghouse by the required deadline.

Criteria: OMB Circular A-133 Section .320(a) and Uniform Guidance 2 CFR 200.512(a) required the audit package and data collection for to be submitted 30 days after receipt of the auditor's report(s), or 9 months after the end of the fiscal year, whichever comes first.

Effect: The Land Grant with laws pertaining to the expenditure of federal funds.

Cause: The Land Grant was not aware of the requirement.

Questioned Costs: None

Auditor's Recommendation: The Land Grant should employ someone familiar with federal reporting requirements the next time the Land Grant is subject to a single audit.

Management's Response:

Corrective Action(s): The Board will submit the data package timely the next time there is a single audit.

Responsible person(s): The Board President.

Timeline of corrective action: Immediately – this will be done the next time there is a single audit.

**LA MERCED DEL PUEBLO DE CEBOLLETA
EXIT CONFERENCE
Year Ended June 30, 2013**

An exit conference was held on June 27, 2018 and attended by the following:

La Merced del Pueblo de Cebolleta

Kilino Marques, President

Debbie Lopez, Treasurer

George Perea, Consultant

Porch & Associates LLC

Thad Porch, Managing Principal

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The financial statements were prepared by Porch & Associates LLC from the books and records of La Merced del Pueblo de Cebolleta. However, the contents of these financial statements remain the responsibility of the Land Grant's management.