



**FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
AUDITORS**

JUNE 30, 2012

TABLE OF CONTENTS

STATE OF NEW MEXICO TAXATION AND REVENUE DEPARTMENT

OFFICIAL ROSTER	1
REPORT OF INDEPENDENT AUDITORS	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
FINANCIAL STATEMENTS	
Statement of Net Assets.....	21
Statement of Activities	22
FUND FINANCIAL STATEMENTS	
Balance Sheet - Governmental Funds.....	23
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets.....	24
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	25
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities.....	26
Statement of Revenues and Expenditures – Budget and Actual – Operating Fund 17200	27

TABLE OF CONTENTS

STATE OF NEW MEXICO TAXATION AND REVENUE DEPARTMENT

FUND FINANCIAL STATEMENTS (CONTINUED)

Statement of Revenues and Expenditures – Budget and Actual – Drive MVD Fund 79800.....	35
Statement of Revenues and Expenditures – Budget and Actual – Native American Fund 10690.....	37
Statement of Revenues and Expenditures – Budget and Actual – Weight Distance Tax Permit Fund 99400	38
Statement of Fiduciary Assets and Liabilities – Agency Funds	39
Notes to the Financial Statements.....	40

SUPPLEMENTARY INFORMATION

Combining Balance Sheet - General Funds.....	71
Combining Statement of Revenues, Expenditures and Changes - General Funds.....	72
Non-Major Funds.....	73
Combining Balance Sheet - Non-Major Governmental Funds.....	74

TABLE OF CONTENTS

STATE OF NEW MEXICO TAXATION AND REVENUE DEPARTMENT

SUPPLEMENTARY INFORMATION (CONTINUED)

Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-Major Governmental Funds.....	75
Fiduciary Fund Types	76
Combining Statement of Fiduciary Assets and Liabilities – Fiduciary Fund Type – Agency Funds.....	79

OTHER SUPPLEMENTARY INFORMATION

Supplemental Schedule of Special Appropriations	80
Supplemental Schedule of Inter-Agency Transfers	81
Supplemental Schedule of Changes in Fiduciary Assets and Liabilities	83
Supplemental Schedule of Cash Accounts	84

TABLE OF CONTENTS

STATE OF NEW MEXICO TAXATION AND REVENUE DEPARTMENT

SINGLE AUDIT

Schedule of Expenditures of Federal Awards.....	86
Notes to Schedule of Expenditures of Federal Awards	87
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	88
Report of Independent Auditors 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 <i>OMB Circular A-133</i>	91
Summary Schedule of Prior Year Audit Findings	94
Schedule of Findings and Questioned Costs.....	95
Exit Conference	101

-
**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT**

Official Roster

Year Ended June 30, 2012

<u>Name</u>	<u>Title</u>
Demesia Padilla, CPA	Cabinet Secretary
John Monforte	Deputy Secretary
Division Directors:	
David Robbins	Administrative Services Division
Terry Rister	Audit and Compliance Division
Terry Rister	Revenue Processing Division
Cesario Quintana	Property Tax Division
Mark Williams	Motor Vehicle Division
Greg Saunders	Information Services Division
Alvan Romero	Tax Fraud Investigations Division

Report of Independent Auditors

Demesia Padilla, CPA, Cabinet Secretary
Honorable Susana Martinez, Governor
Hector H. Balderas, New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information and the budget comparison of the general fund of the State of New Mexico Taxation and Revenue Department (Department) as of and for the year ended June 30, 2012, which collectively comprise the Department's basic financial statements, as listed in the table of contents. We have also audited the financial statements of each of the Department's nonmajor governmental and fiduciary funds as presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis of our opinions.

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, the aggregate remaining fund information and all respective budgetary comparisons of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not present fairly the

Demesia Padilla, CPA, Cabinet Secretary
Honorable Susana Martinez, Governor
Hector H. Balderas, New Mexico State Auditor

financial position of the entire State of New Mexico as of June 30, 2012, and the changes in the financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously 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 Department as of and for the year ended June 30, 2012, and the respective changes in financial position thereof, and the respective budgetary comparisons for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each nonmajor governmental and fiduciary funds of the Department as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012, on our consideration of the Department's internal controls over financial reporting and 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the

Demesia Padilla, CPA, Cabinet Secretary
Honorable Susana Martinez, Governor
Hector H. Balderas, New Mexico State Auditor

information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements, the combining and individual fund financial statements and budgetary comparisons of the Department. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget, Circular A-133, *Audits of State, Local Governments and Non-Profit Organizations* and is not a required part of the basic financial statements. Also, the accompanying schedules listed as other supplementary information in the table of contents are presented for purposes of additional analysis and are 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 accompanying schedule of expenditures of federal awards and accompany schedules listed as other supplementary information in the table of contents, are fairly stated in all material respects in relation to the financial statements as a whole.

Mess Adams LLP

Albuquerque, New Mexico
December 12, 2012

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

The New Mexico Taxation & Revenue Department's (Department) (TRD) discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the Department's financial activity; (c) identify changes in the Department's financial position (ability to address future year challenges); (d) identify any material deviations from the financial plan (approved budget); and (e) identify fund issues or concerns.

The Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts; please read it in conjunction with the Department's financial statements and notes which follow this section.

Financial Highlights

The assets of the New Mexico Taxation and Revenue Department exceeded its liabilities at the close of the most recent fiscal year by \$40,505,303 (net assets).

The governmental net assets increased by \$13,010,355.

The total cost of all Department programs was \$76,882,837.

Department Highlights

FY 2012 TRD Collections and Distributions

Net Collections: TRD collected a total of \$7.5 billion in FY 2012. Combined reporting system taxes (gross receipts, withholding and compensating taxes) were the single largest category of collections at \$4.6 billion, or 62%, of total collections. Mineral extraction taxes were next at \$1.1 billion, or 14%. Income taxes were \$821 million, or 11%. Motor vehicle taxes and fees were \$352 million, or 5%, and other state funds were \$611 million, or 8%.

Net Distributions: TRD distributed a total of \$8 billion in FY 2012. \$4.2 billion, or 53% was distributed to the State General Fund. \$1.6 billion, or 20%, was distributed to local governments. \$272 million, or 3%, was distributed to the New Mexico Department of Transportation. \$1.9 billion, or 24%, was distributed to other state funds.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2012**

Revenue Enhancement Efforts

The Department continued its initiative to enhance tax collection efforts in fiscal year 2012 (FY12). The original projected results were achieved by the Division for FY12. Collections including denied refunds and credits totaled \$281.9M in FY12, compared to a total of \$200.2M in FY11. This number includes two large payments totaling approximately \$32M.

The Amnesty Program, mandated in the 2010 Legislative Special Session, was fully implemented throughout FY11 and continued through FY12. At the end of FY12, \$45.8M had been collected on Amnesty assessments of \$54M. Because taxpayers have 180 days to pay after being assessed, these figures will continue to slowly increase during FY13. Although, it appears the Department is still above expectations, the full impact will not be recognized until the end of FY13. The remaining balance of unpaid Amnesty assessments will be harder to collect since taxpayer may have entered into an agreement but later defaulted. This will require additional collection activity to reduce the outstanding balance.

Compliance Enforcement Program

The Tax Fraud Investigations Division (TFID) was created in late fiscal year 2003. Four bureaus comprise the Division: the Tax Fraud Investigations Bureau (TFIB), the Forensic Audit Bureau (FAB), the Internal Audit Bureau (IAB) and the Internal Investigations Bureau (IIB).

In fiscal year 2012, there were four criminal cases referred to the district attorney's offices with prosecution recommendations. From fiscal year 2003 through the end of fiscal year 2012, fifty-eight out of fifty-nine TFID cases have been successfully prosecuted, resulting in a 98% successful prosecution rate.

During fiscal year 2012, the TFID Internal Audit Bureau completed thirty-six Internal Audits; thirty-one were performed for the Motor Vehicle Division (MVD), one for the Audit and Compliance Division (ACD), one for the Administrative Services Division (ASD), one for the Financial Services Bureau, one for the Information Technology Division (ITD) and one for the Taxation and Revenue Department (TRD).

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2012**

During fiscal year 2012, the Internal Investigations Bureau received ten internal investigation referrals and/or investigation requests. Eight of those investigations were completed during fiscal year 2012. The eight completed investigations involved the following entities:

Division/Department	Internal Investigations Completed in Fiscal Year 2012
Motor Vehicle Division	4
Audit and Compliance Division	4
Total	8

GenTax and E-Filing

The GenTax/E-File project team project team has completed numerous projects in FY12. FY12 accomplishments include: Full implementation of the FED/State Modern E-file system as mandated by the IRS for Personal Income Tax; Implementation of the PIT Net E-file application to enable taxpayers to file Personal Income Tax online. Implementation of an E-check option for four new tax programs; A major rewrite to the OGP/PTW Annual Report application; Enhancements to the Weight Distance and E-Permits systems for 2012; A major rewrite of the Key From Image application for the Revenue Processing Division; Annual Tax year Rollout Changes to all relevant tax programs and processes for Tax Year 2011; legislatively mandated changes to tax programs and implementation of the Governor’s Office mandated changes to the revenue distributions system in GenTax; and the stabilization and virtualization of the E-file application systems architecture and platform.

The major ongoing project begun at the end of FY12 is the multi-year effort to upgrade the GenTax system to version 9 which was funded by the 2012 legislative session. This upgrade project involves the participation of all the divisions of TRD and managed by the GenTax Bureau and the contractor, FAST Enterprises. The effort entails ensuring that all current functionality and additional functionality requested by divisional users be added to all the modules in the upgrade which upgrades the system from version 6 to version 9. Version 9 of GenTax is a web based architecture with a completely different look and feel to the user interface. This will require the GenTax/FAST team to engage in a large endeavor of training the divisional user trainers to ensure the rollout of the new system in the spring of 2013 is successful. Included in the GenTax upgrade to version 9 is the implementation of two new modules which will enhance the TRD’s ability to capture new revenues. These new modules are the Discovery data warehouse module and the Business Credit Manager module.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2012**

Delinquent Property Accounts – FY12 Totals June 30, 2012

The Property Tax Division (PTD), Delinquent Property Tax Bureau is responsible for the collection of real property taxes that have become delinquent for more than two years. During FY12 the Bureau resolved a total of 13,134 delinquent property accounts, either by field collections or through property tax sales. Total collections netted \$3,855,476 in penalty and interest, \$1,218,151 in State Cost and \$30,618 on Installment Agreements. Total PTD collections were \$5,104,245 for FY12, all of which funds the Property Tax Division. Total Base Delinquent Taxes recovered for New Mexico's thirty three counties aggregated to a total of \$11,266,400.

Field collections resolved 12,026 accounts or 91.6% of the total resolved delinquent property accounts. The amount of penalty and interest collected through field collections was \$3,754,009 or 96.6% of the total penalty and interest collected. Field collections netted \$1,145,445 in State Cost or 94.0% of the total State Cost collected.

Installment Agreements are executed when delinquent taxpayers need time to meet their obligations. These payment contracts generally have a 36 month term. Penalty and interest collections from Installment Agreements totaled \$32,579. State Cost from Installment Agreements totaled \$26,180. One percent of accrued monthly interest on the outstanding principal balance totaled \$30,318. Contract fee on all disbursed Installment Agreements totaled \$300.

Accounts that are not resolved through field collections or installment agreements are scheduled for sale. There were 29 property tax sales conducted in FY12. The number of accounts listed for sale was 2,124. Property Tax Sales resolved 1,108 accounts or 8.4% of the total resolved delinquent property accounts. The amount of penalty and interest collected through sales was \$68,887 or 1.8% of the total penalty and interest collected. Sale collections also netted \$46,525 in State Cost which equates to 3.8% of the total State Cost collected.

The Property Tax Division's, Delinquent Property Tax Bureau increased the number of tax sales held to 29 in FY12. In FY12, there were multiple sales in some counties. The Property Tax Division intends to hold one in each of New Mexico's 33 Counties in FY13 as well as multiple sales in individual counties as needed. The emphasis on sales has created a positive result. The Property Tax Division made roughly 7.0% of its revenue on sales in FY11. That figure decreased to 3.5% in FY12. The decrease in accounts that were put up for sale and accounts actually resolved by sale was roughly 50%. This is an indication that the taxpaying public is taking sales effort seriously and curing tax delinquencies before the Property Tax Division is forced to sell properties.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2012**

Electronically Filed Tax Returns

The Revenue Processing Division (RPD) received 899,784 Personal Income Tax (PIT) returns and 936,185 Combined Reporting System (CRS) returns (gross receipts tax) that were filed electronically. These returns amount to 86% of all incoming PIT returns and 79 % of all CRS returns received by the Department.

RPD received and processed 90,975 PIT returns with a 2-D Bar code. These returns are paper returns that are mailed in, where data from the returns is electronically read from the 2 D bar code as the return is processed through the scanning equipment and the information is then uploaded into the system automatically without manual data entry. Approximately 18% - 25% of the electronically filed returns do not meet edit criteria and must be reviewed by the edit error staff.

RPD New Initiatives

Through the hard work of RPD and ITD, the Department completed development of the new required IRS format for electronic filing of personal income taxes through the Modernized E-file (MeF) program. The Department first developed MeF filing using the new format for tax year 2011 returns, and is now ready to switch completely to the new format for 2012 tax year returns. The IRS requires all states to switch to the new format for tax year 2012. The new format provides both the Department and taxpayers with increased functionality when filing their returns. It also provides an environment that enhances both the taxpayer and department personnel experiences. For example:

- More detail can be provided when the return is either rejected or acknowledged;
- Additional back-up documentation can easily be submitted with the return;
- Business rules can be easily enhanced, causing the return to come to the Department virtually error free;
- Using the global language of XML, means less technical expertise is needed to read the electronic file;
- Returns for multiple tax years may be filed.

During FY12, RPD received 177 claims for refunds from the Native American Veterans Income Tax Settlement fund (NAVITS), and issued 51 refunds for a total of \$64,180.25. RPD has denied 38 claims and 133 are pending resolution. The NAVITS fund claims will end December 31, 2012.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2012**

Motor Vehicle

MVD has implemented and is continuing to implement various initiatives to meet customer expectations by providing services that are consistent, timely, accurate, confidential and efficient. MVD values customers' time by seeking to minimize field office wait times and by providing effective transaction processing alternatives including a toll-free call center; self-service kiosks in each MVD field office; and mail-in, on-line, and automated telephone registration renewals. MVD protects the public from fraud and minimizes opportunities for identity theft through its Centralized Issuance of driver licenses and identification cards and Document Authentication Programs. The Division seeks to provide a supportive and professional work environment for employees with a focus on teamwork, effective training, documented policies and procedures, accountability, personal responsibility, employee development and effective management structures and communication.

MVD faces major challenges resulting from its dependence on outdated information technology systems, inability to retain staff, inability to fill vacant positions due to delays in the hiring process and budget constraints. These obstacles notwithstanding, MVD has been able to maintain service levels and implement improvement initiatives that resulted in the following accomplishments for FY12:

- Opened a new Santa Fe Field Office facility.
- Completed CDLIS Modernization to achieve compliance with Federal requirements for increased capture and storage of commercial driver license (CDL) information and alignment with REAL ID.
- Awarded a contract for a new Document Management System (DMS), an electronic capture, storage and retrieval system that will efficiently manage 12 million documents annually. The DMS aligns with Real ID compliance and will streamline research processes, eliminate microfilming, enable real time revenue collection processes, increase our ability to flag fraudulent documents, and audit all transaction types.
- Went into full production mode with a new IVR (interactive voice response) system, expanding self-help service to customers with unlimited capacity and 24/7 uptime, and allowing customers to pay citations without waiting for a field office or call center representative.
- Provided access to driver and vehicle data on a web-based platform for other government entities.
- Transitioned to a proven COTS (Commercial Off-The-Shelf) system for a Vehicle Insurance Tracking and Compliance Program.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2012**

MVD is re-assessing its options to develop and implement a new Driver/Vehicle system that will replace the current 30-year old system as well as researching Kiosks to provide expanded MVD services and payment options, possibly including public and private sector partnerships.

In FY13, MVD will deploy enhanced functionality of the Vehicle Registration Suite (VRS). In April 2011 MVD deployed VRS by which new and used auto dealers and Title Service Companies (TSCs) can issue print-on-demand demo and temp permits. Approximately 85% of new and used auto dealers are currently registered in VRS. In December 2012 VRS will be greatly enhanced by extending print-on-demand functionality to additional users and by expanding permit types (transport and transit). New users will be MVD field offices, municipal field offices, Private Retail Agents (PRAs) and Super Title Service Companies (STSCs). With this deployment, all temp tags will be issued electronically via VRS. The benefits of such functionality are program efficiency, improved data integrity, increased public safety and greater consumer protection.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) major governmental fund financial statements, and 3) notes to the financial statements. This report also contains other non-major combining and individual governmental fund statements and supplementary information, including the schedule of expenditures of Federal awards, in addition to the basic financial statements themselves.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2012**

Government-wide Financial Statements. The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns that add to a total for the Primary Government and consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Both statements distinguish between the governmental and business-type activities of the primary government.

Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

The Department does not engage in any business type activities and therefore all the Department's basic services are included in the governmental activities. State appropriations, allocated fees, and federal grants finance most of these activities. The funds included in Governmental Activities for the Department are the General Operating Fund, the Weight Distance Tax Permit Fund, the MVD Drive Fund, the Native American Fund and the Property Valuation Special Revenue Fund.

Fund Financial Statements. Fund financial statements consist of a series of statements that focus on information about the major governmental funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (enterprise funds) and fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

The major funds include the General Fund, which is the Department's primary operating fund. The General Fund includes the Operating Fund, the Weight Distance Tax Permit Fund, the MVD Drive Fund, and the Native American Fund.

The non-major funds include the Property Valuation special revenue fund, in which funds are legally restricted for loans to counties to assist them with residential and non-residential property valuations and the two capital projects funds: TRIMS and Capital Improvement projects.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2012**

The Department has two types of funds:

Governmental Funds – Most of the Department's services are included in governmental funds which focus on (a) how cash and other financial assets, that can be readily converted to cash, flow in and out, and (b) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view that helps the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the Department's programs. Since this information does not include the additional long-term focus of the government-wide statements, reconciliation between the government-wide statements and the fund financial statements is provided for governmental-type activities.

Fiduciary Funds – The fiduciary funds are used to report assets held in trustee or agency capacity for others and therefore are not available to support Department programs. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included with the governmental-type funds since these funds are not available to support the Department's programs. The Department's fiduciary funds are maintained to receive primarily taxes and some fees. These monies are then distributed to the state general fund, counties, municipalities, other state agencies and other entities.

Notes to the Financial Statements. The notes to the financial statements consist of information that is essential to a user's understanding of the basic financial statements.

Infrastructure Assets. Infrastructure assets (roads, bridges, traffic signals, etc.) are valued and reported within the governmental column of the Government-wide Statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential. The Department does not own a material interest in any infrastructure assets.

Budgetary Comparisons. In addition to the MD&A, budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget are required to be presented as Required Supplementary Information (RSI).

The budgetary comparison schedules present both the original and the final appropriated budgets for the reporting period as well as the actual inflows, outflows and balances, stated on the government's budgetary basis. As required by the Office of the State Auditor in 2 NMAC 2.2, the Statements of Revenues and Expenditures – Budget and

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2012**

Actual are also presented. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

Financial Analysis of the Department as a Whole

Net Assets: Total Department net assets for fiscal year ended June 30, 2012 are \$40,505,303. However, most of those assets are either restricted as to the purposes they can be used for or are invested in capital assets (buildings, equipment, etc.) The unrestricted, designated net assets in Governmental Activities are \$33,345,997 at the end of the fiscal year.

The Department's Net Assets

	2012	2011
Assets		
Current and other assets	\$ 42,803,877	28,860,474
Capital assets	<u>8,746,933</u>	<u>8,866,408</u>
Total assets	<u>51,550,810</u>	<u>37,726,882</u>
Liabilities		
Current liabilities	11,045,507	10,231,934
Long-term liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>11,045,507</u>	<u>10,231,934</u>
Net Assets		
Invested in capital assets	8,746,933	8,866,409
Restricted	33,345,997	19,315,457
Unrestricted (deficit)	<u>(1,587,627)</u>	<u>(686,918)</u>
Total net assets	<u>\$ 40,505,303</u>	<u>27,494,948</u>

Governmental Activities: The table below summarizes the Department's activities for the fiscal years ended June 30, 2012 and 2011. Total change in net assets from the previous fiscal year was \$13,010,355.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2012**

The Department's Governmental Activities

	2012	2011
Program expenses	\$ (78,280,586)	(84,468,185)
Program revenue	<u>1,397,749</u>	<u>2,497,249</u>
Net program (expense) revenue	<u>(76,882,837)</u>	<u>(81,970,936)</u>
General revenues	93,698,055	88,463,354
Transfers and reversions	<u>(3,804,863)</u>	<u>(3,952,112)</u>
Net general revenues, transfers and reversions	<u>89,893,192</u>	<u>84,511,242</u>
Change in net assets	13,010,355	2,540,306
Net assets, beginning	<u>27,494,948</u>	<u>24,954,642</u>
Net assets, ending	<u>\$ 40,505,303</u>	<u>27,494,948</u>

Revenues for the governmental activities totaled \$95,095,804 and \$90,960,603 in the fiscal years ended June 30, 2012 and 2011, respectively. The change is attributable to an additional revenue from administrative fees, MVD revenue, and special appropriations for ONGARD and Gentax Upgrade.

The Department's total expenditures for government-type activities during the fiscal year were \$78,280,586. Approximately 67% of the expenditures of the Department are in the area of personnel services and employee benefits. The second highest area of expenditure within the Department is in the category of other costs (23%). The majority of this amount was used to support the general operations of the Department such as computer usage, telecommunications, printing motor vehicle forms and tax forms, postage, and leases for rent of office space.

The financial position of the Department has increased but remains consistent with that of the prior year.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2012**

Governmental Funds: The General Fund of the Department is used to account for the Department's primary operations. Of the total fund balance of \$33,925,748, \$15,325,342 is legally committed for items funded with special appropriations received by the Department. An additional \$18,600,406 is designated for subsequent year expenditures related to the Department's non-reverting programs.

The Property Valuation special revenue fund is used to fund loans to counties to assist them with residential and non-residential property valuations. The fund balance of \$422,428 is legally committed for this purpose.

During FY12, capital asset activity included \$34,326 of capital outlay purchases for purchases of furniture and fixtures, \$636,377 for data processing equipment, \$5,183 for machinery and equipment, and \$1,794,507 in software enhancements to the Department's major computer processing systems.

Fund Balance: As the Department completed the year, its governmental funds reported a combined fund balance of \$34,348,176.

General Fund Budgetary Highlights

The New Mexico State Legislature makes annual appropriations to the Department. Amendments to the appropriated budget require approval by the Budget Division of the Department of Finance and Administration with review by the Legislative Finance Committee.

Over the course of the year, the Department adjusts its budget as authorized in the Appropriation Act. These budget adjustments fall into three categories:

- Supplemental and special appropriations that are reflected in the actual beginning account balances (correcting the estimated amounts in the budget adopted for the fiscal year).
- Budget adjustment requests made during the fiscal year to allow the Department to utilize funds where needed.
- Budget adjustment requests that increase or decrease other state funds based on actual revenues.

Changes between the original and final budgets were \$1,488,894 for the Operating Fund. The Operating Budget for Revenues classified as Other State Funds increased from \$23,420,900 to \$24,037,600 or \$616,700. This was a 3.6% increase from the original Operating Budget. Actual revenues collected, which are classified as Other State Funds, were \$27,160,690, or \$3,119,480 higher than the Operating Budget Amount. This represents a 13% increase over the budgeted amount.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2012**

Actual Federal grants revenue collected were \$1,397,749, which represents a 60% decrease over the budget amount. Forty percent (40%) of all Federal grant revenue is attributable to the Office of Natural Resources Revenue (ONRR) formerly Minerals Management Service (MMS).

Budget adjustments for the Operating Fund were 1.7% of the original budget. The increases were from Federal funds and Other State Funds.

The majority of the increases from the original budget to the final budget pertain to Motor Vehicle Initiatives, which are supported by revenues related to sale of MVD data, and the Weight Distance initiative to enforce weight-distance and the Motor Vehicle Division.

Capital Assets and Debt Administration

At the end of fiscal year 2012, the Department has invested a total of \$30,086,388 in governmental-type activities in capital assets. This amount represents a net increase (including additions and deductions) of \$1,625,929 (6.0%) over last year's figure of \$28,460,459 in gross capital assets without taking accumulated depreciation into account.

The Department's Capital Assets

	2012	2011
Furniture and fixtures	\$ 1,223,603	1,189,277
Software	19,302,752	17,508,245
Data processing equipment	5,929,504	6,064,815
Machinery and equipment	2,835,314	2,902,906
Tenant leasehold improvements	712,762	712,762
Vehicles	82,454	82,454
	<u>30,086,389</u>	<u>28,460,459</u>
Accumulated depreciation	<u>(21,339,456)</u>	<u>(19,594,051)</u>
Net total	<u>\$ 8,746,933</u>	<u>8,866,408</u>

More detailed information about the Department's capital assets is presented in Note 6 to the financial statements.

GASB Statement 34 requires the recording and depreciation of infrastructure assets such as roads, bridges, traffic signals, etc. The Department does not own any infrastructure assets.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2012**

Economic Factors and Next Year's Budgets and Rates

The Department's budget is appropriated to the following programs:

- Program Support
- Tax Administration Program
- Property Tax
- Motor Vehicle Division
- Compliance Enforcement

The Department's operating budget for fiscal year 2013 is \$81,163,100 and includes 1,136.0 full time equivalents (FTE). The Department's FY13 General Fund appropriation increased by \$414,600 (less than 1%) from FY12.

The Department also received non-recurring funding of \$6,230,000 for the GenTax upgrade; and \$6,000,000 for stabilization and modernization of the ONGARD system, of this only \$1,584,100 was certified by DoIT and budgeted.

Performance Measures

The Department collects data to measure success in meeting performance measure targets to address the requirements for the Accountability in Government Act (AGA), Sections 6-3A-1 through 6-3A-8 NMSA 1978. Fiscal year 2012 was the eleventh year the Department submitted performance based and program budgets. The Department continues to work with the Legislative Finance Committee (LFC) and the State Budget Division to report and streamline measures that are meaningful and useful.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2012

Type of Measure	HB2 Measure	FY12 Target	FY12 Result
	Tax Administration Program		
Output	Percent of electronically filed returns (PIT, CRS)	65%	82.1%
Outcome	Collections as a percent of collectable audit assessments generated in the current fiscal year	40%	64.2%
Outcome	Collections as a percent of collectables outstanding balances from the end of the prior fiscal year	15%	18.4%
	Motor Vehicle Program		
Efficiency	Average call center wait time to reach an agent, in minutes	6	6.41
Outcome	Percent of registered vehicles with liability insurance	92%	91.8%
Efficiency	Average wait time in Q-Matic equipped offices, in minutes	20	25.1
	Property Tax Program		
Output	Number of appraisals and valuations for companies conducting business within the state subject to state assessment	540	534
Outcome	Percent of counties in compliance with sales ratio standard of eighty-five percent assessed value to market value	92%	97%
	Compliance Enforcement Program		
Outcome	Number of tax investigations referred to prosecutors as a percent of total investigations assigned during the year	40%	15%
Outcome	Successful tax fraud prosecutions as a percent of total cases prosecuted	100%	100%
	Program Support		
Outcome	Percent of driving-while-intoxicated drivers license revocations rescinded due to failure to hold hearings within ninety days	>1%	0.20%

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2012**

Contacting the Agency's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, legislators, and investors and creditors with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

New Mexico Taxation & Revenue Department
Administrative Services Division
Post Office Drawer 630
Joseph M. Montoya Building Room 3040
Santa Fe, New Mexico 87504-0630

FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF NET ASSETS
June 30, 2012**

	Governmental Activities
ASSETS	
Current Assets	
Unrestricted cash on hand	\$ 18,953
Interest in the State Treasurer General Fund	
Investment Pool	
Unrestricted	37,140,999
Restricted for loans to counties	378,831
Receivables	
Due from federal government	387,650
Loans to counties, net	44,083
Other receivables, net	1,746
Due from external parties	3,846,695
Due from other funds	1,693
Prepaid expenses	9,872
Inventory of supplies	973,355
	<hr/>
Total current assets	42,803,877
Non-Current Assets	
Capital assets, net	8,746,933
	<hr/>
Total assets	<u>\$ 51,550,810</u>
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 3,887,444
Accrued payroll	1,970,114
Due to other state agencies	564
Due to State General Fund	2,552,668
Due to other funds	560
Other training liabilities	44,351
Compensated absences	2,062,687
Contingent liability	527,119
	<hr/>
Total liabilities	11,045,507
Net Assets	
Invested in capital assets	8,746,933
Restricted for special appropriations	15,325,342
Restricted for loans to counties	422,428
Restricted for other purposes	17,598,227
Unrestricted net assets (deficit)	(1,587,627)
	<hr/>
Total net assets	<u>\$ 40,505,303</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

	Program Support	Tax Administration Act	Motor Vehicle Program	Property Tax Program	Compliance Enforcement	Governmental Activities
Program Expenses	\$ 21,032,547	29,552,582	23,015,100	2,738,714	1,941,643	78,280,586
Total program expenses	21,032,547	29,552,582	23,015,100	2,738,714	1,941,643	78,280,586
Program Revenues						
Federal operating grants	-	1,087,485	310,264	-	-	1,397,749
Total program revenues	-	1,087,485	310,264	-	-	1,397,749
Net Program Expense	<u>(21,032,547)</u>	<u>(28,465,097)</u>	<u>(22,704,836)</u>	<u>(2,738,714)</u>	<u>(1,941,643)</u>	<u>(76,882,837)</u>
General Revenues						
Other state funds:						
Delinquent Property Tax Penalty and Interest						4,753,165
Weight Distance Administrative Fees						3,549,382
MVD Administrative Fees						17,430,640
Other Administrative Fees						7,238,484
Total general revenues						<u>32,971,671</u>
Transfers and Reversions						
State General Fund appropriations						52,927,500
State General Fund special appropriations						7,286,067
Transfers from other state agencies						500,317
Transfers to other state agencies						(742,500)
Other						12,500
Other transfers						(512,500)
Reversions to State General Fund - FY12						(2,549,863)
Total transfers and reversions						<u>56,921,521</u>
Net General Revenues, Transfers and Reversions						<u>89,893,192</u>
Change in net assets						<u>13,010,355</u>
Net assets, beginning of fiscal year						27,494,948
Net assets, end of fiscal year						<u>\$ 40,505,303</u>

See Notes to Financial Statements.

FUND FINANCIAL STATEMENTS

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

	<u>Major Funds</u> <u>General</u>	<u>Other Governmental</u> <u>Funds</u>	<u>Total Governmental</u>
ASSETS			
Interest in the State Treasurer General Fund			
Investment Pool	\$ 37,140,999	378,831	37,519,830
Cash on hand	18,953	-	18,953
Receivables			
Due from federal government	387,650	-	387,650
Loans to counties, net	-	44,083	44,083
Other receivables, net	1,746	-	1,746
Due from:			
Other funds	3,846,695	-	3,846,695
Other entities	1,615	78	1,693
Inventory of supplies	973,355	-	973,355
Prepaid expenses	9,872	-	9,872
Total assets	\$ 42,380,885	422,992	42,803,877
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 3,887,444	-	3,887,444
Accrued payroll	1,970,114	-	1,970,114
Due to external parties	560	-	560
Due to other state agencies	-	564	564
Due to State General Fund	2,552,668	-	2,552,668
Other liabilities	44,351	-	44,351
Total liabilities	8,455,137	564	8,455,701
Fund Balances			
Nonspendable			
Cash on hand	18,953	-	18,953
Inventory of supplies	973,355	-	973,355
Prepaid expenses	9,872	-	9,872
Restricted	10,946,907	-	10,946,907
Committed	21,976,661	422,428	22,399,089
Total fund balances	33,925,748	422,428	34,348,176
Total liabilities and fund balances	\$ 42,380,885	422,992	42,803,877

See Notes to Financial Statements.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS
Year Ended June 30, 2012**

Total Fund Balances - Governmental Funds (Governmental Fund Balance Sheet)	\$ 34,348,176
 Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets not included in the governmental funds, but capitalized in the Statement of Net Assets	30,086,388
Accumulated depreciation recorded in the Statement of Net Assets, but not recorded in the governmental funds	(21,339,455)
	<u>8,746,933</u>
Contingent liabilities recorded in Statement of Net Assets, but not recorded in the governmental funds	(527,119)
Compensated absences recorded in the Statement of Net Assets, but not recorded in the governmental funds	(2,062,687)
	<u>(2,062,687)</u>
Net assets of governmental activities (Statement of Net Assets)	<u>\$ 40,505,303</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
June 30, 2012

	<u>Major Funds</u> <u>General</u>	<u>Other Governmental</u> <u>Funds</u>	<u>Total Governmental</u>
Revenues			
Other state funds	\$ 32,971,576	94	32,971,670
Federal funds	1,397,749	-	1,397,749
Total revenues	34,369,325	94	34,369,419
Expenditures			
Current			
Personal services and employee benefits	51,688,389	-	51,688,389
Contractual services	8,696,706	-	8,696,706
Other costs	15,214,252	-	15,214,252
Capital outlay	2,470,392	-	2,470,392
Total expenditures	78,069,739	-	78,069,739
Excess (Deficiency) of Revenues Over Expenditures	(43,700,414)	94	(43,700,320)
Other Financing Sources (Uses)			
State General Fund appropriations	60,213,567	-	60,213,567
Transfers from other state agencies	500,317	-	500,317
Other source	12,500	-	12,500
Other transfers	(512,500)	-	(512,500)
Transfers to other state agencies	(742,500)	-	(742,500)
Reversions to State General Fund - FY12	(2,549,863)	-	(2,549,863)
Total other financing sources (uses)	56,921,521	-	56,921,521
Net changes in fund balances	13,221,107	94	13,221,201
Fund balances, June 30, 2011	20,704,641	422,334	21,126,975
Fund balances, June 30, 2012	\$ 33,925,748	422,428	34,348,176

See Notes to Financial Statements.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2012**

Net Changes in Fund Balances - Total Governmental Funds		
(Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$	13,221,201
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital asset additions recorded as expenditures in the governmental funds but capitalized in the Statement of Net Assets		2,470,392
Loss on disposal of capital assets not recorded as expenditures in the governmental funds		(280,552)
Depreciation expense recorded in the Statement of Activities but not recorded as expenditures in the governmental funds		(2,309,310)
Increase in contingent liabilities		(297,369)
Net change in compensated absences recorded in the Statement of Activities as a liability but not recorded in the governmental funds		205,993
		<hr/>
Change in net assets of governmental activities		
(Statement of Activities)	\$	13,010,355
		<hr/> <hr/>

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200
Year Ended June 30, 2012

	PROGRAM SUPPORT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 18,760,910	18,760,910	18,760,910	-
Other state funds	1,327,400	1,331,600	1,276,813	(54,787)
Total revenues	20,088,310	20,092,510	\$ 20,037,723	(54,787)
Fund Balance Budgeted	-	-		
Total revenues and fund balance budgeted	\$ 20,088,310	20,092,510		
Expenditures				
Personal services/employee benefits	\$ 13,383,710	12,528,710	12,273,859	254,851
Contractual services	2,568,900	3,208,100	3,074,691	133,409
Other	4,135,700	4,355,700	4,157,709	197,991
	\$ 20,088,310	20,092,510	19,506,259	586,251

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2012

TAX ADMINISTRATION ACT				
	<u>Budgeted Amounts</u>		<u>Budgetary Basis Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State General Fund Appropriations	\$ 21,407,379	21,407,379	21,407,379	-
Other state funds	6,698,600	6,711,100	6,455,187	(255,913)
Federal funds	1,457,900	1,457,900	1,087,485	(370,415)
Other sources	-	-	12,500	12,500
Total revenues	29,563,879	29,576,379	\$ 28,962,551	(613,828)
Fund Balance Budgeted	-	-		
Total revenues and fund balance budgeted	\$ 29,563,879	29,576,379		
Expenditures				
Personal services/employee benefits	\$ 23,634,979	22,933,679	21,704,311	1,229,368
Contractual services	111,600	233,500	215,502	17,998
Other	5,817,300	6,409,200	6,408,959	241
	\$ 29,563,879	29,576,379	28,328,772	1,247,607

Omitted Fund 99400

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2012

MOTOR VEHICLE PROGRAM *				
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 10,974,134	10,974,134	10,974,134	-
Other state funds	12,255,300	12,855,300	14,475,695	1,620,395
Federal funds		872,194	310,264	(561,930)
Other sources				
Total revenues	23,229,434	24,701,628	\$ 25,760,093	1,058,465
Fund balance budgeted	-	-		
Total revenues and fund balance budgeted	\$ 23,229,434	24,701,628		
Expenditures				
Personal services/employee benefits	\$ 14,357,634	14,336,715	13,181,549	1,155,166
Contractual services	3,446,700	4,924,094	4,612,979	311,115
Other	5,425,100	5,440,819	4,850,440	590,379
Other financing uses	-	-		-
	\$ 23,229,434	24,701,628	22,644,968	2,056,660

* Less SHARE Funds 99400 and 79800

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2012

	PROPERTY TAX PROGRAM			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
State General Fund Appropriations	\$ -	-	-	-
Other state funds	2,891,400	2,891,400	4,753,235	1,861,835
Total revenues	2,891,400	2,891,400	4,753,235	1,861,835
Fund balance budgeted	200,000	200,000		
Total revenues and fund balance budgeted	\$ 3,091,400	3,091,400		
Expenditures				
Personal services/employee benefits	\$ 2,454,200	2,407,200	2,163,242	243,958
Contractual services	70,000	107,000	103,028	3,972
Other	567,200	577,200	481,065	96,135
	\$ 3,091,400	3,091,400	2,747,335	344,065

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2012

	COMPLIANCE ENFORCEMENT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
State General Fund Appropriations	1,785,077	1,785,077	1,785,077	-
Other state funds	\$ 248,200	248,200	199,733	(48,467)
Total revenues	2,033,277	2,033,277	\$ 1,984,810	(48,467)
Fund balance budgeted	-	-		
Total revenues and fund balance budgeted	\$ 2,033,277	2,033,277		
Expenditures				
Personal services/employee benefits	\$ 1,762,577	1,664,577	1,616,067	48,510
Contractual services	9,900	16,900	14,109	2,791
Other	260,800	351,800	327,913	23,887
	\$ 2,033,277	2,033,277	1,958,089	75,188

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2012

Fund 17200 SPECIAL APPROPRIATIONS

	PROGRAM SUPPORT			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Gentax Upgrade Z20704				
Revenues				
Other Financial Sources	\$ 6,230,000	6,230,000	6,230,000	-
Total revenues	6,230,000	6,230,000	6,230,000	-
Fund balance budgeted	-	-		
	\$ 6,230,000	6,230,000		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-		
Contractual services	6,230,000	6,230,000	200,000	6,030,000
Other	-	-		-
Other Financing Uses	-	-		-
Total expenditures	\$ 6,230,000	6,230,000	200,000	6,030,000

	PROGRAM SUPPORT			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Stabilize & Modernize ONGARD - Z20705				
Revenues				
Other Financial Sources	\$ 1,584,100	1,584,100	1,056,067	(528,033)
Total revenues	1,584,100	1,584,100	1,056,067	(528,033)
Fund balance budgeted	-	-		
	\$ 1,584,100	1,584,100		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-		-
Contractual services	1,584,100	1,584,100	20,750	1,563,350
Other	-	-		-
Other Financing Uses	-	-		-
Total expenditures	\$ 1,584,100	1,584,100	20,750	1,563,350

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2012

Fund 17200 SPECIAL APPROPRIATIONS

Replace MVD Driver System - Z80705

PROGRAM SUPPORT

	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
	Revenues			
Other Financial Sources	\$ -	-	-	-
Total revenues	-	-	-	-
Fund balance budgeted	2,004,913	2,004,913		
	\$ 2,004,913	2,004,913		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	2,004,913	504,913	455,647	49,266
Other	-	1,500,000	1,316,514	183,486
Other Financing Uses	-	-	-	-
Total expenditures	\$ 2,004,913	2,004,913	1,772,161	232,752

Tax amnesty program - Z01021

TAX ADMINISTRATION ACT

	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
	Revenues			
Other State Funds	\$ -	-	27	27
Total revenues	-	-	27	27
Fund balance budgeted	90,412	90,412		
	\$ 90,412	90,412		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 56,459	56,459	39,906	16,553
Contractual services	4,452	4,452	-	4,452
Other	29,501	29,501	1,193	28,308
Other Financing Uses	-	-	-	-
Total expenditures	\$ 90,412	90,412	41,099	49,313

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2012

	TOTAL OPERATING FUND			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 52,927,500	52,927,500	52,927,500	-
Other state funds	23,420,900	24,037,600	27,160,690	3,123,090
Federal funds	1,457,900	2,326,494	1,397,749	(928,745)
Other sources	7,814,100	7,814,100	7,298,567	(515,533)
Total revenues	85,620,400	87,105,694	\$ 88,784,506	1,678,812
Fund balance budgeted	290,412	290,412		
Total revenues and fund balance budgeted	\$ 85,910,812	87,396,106		
Expenditures				
Personal services/employee benefits	\$ 55,649,559	53,927,340	50,978,934	2,948,406
Contractual services	16,030,565	16,813,059	8,696,706	8,116,353
Other	16,235,601	18,664,220	17,543,793	1,120,427
Other financing uses	-	-	-	-
	\$ 87,915,725	89,404,619	77,219,433	12,185,186

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
DRIVE MVD FUND 79800
Year Ended June 30, 2012

	PROGRAM SUPPORT			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other state funds	\$ 94,000	94,000	127,088	33,088
Federal funds	-	-	-	-
Total revenues	94,000	94,000	\$ 127,088	33,088
Fund balance budgeted	-	-		
Total revenues and fund balance budgeted	\$ 94,000	94,000		
Expenditures				
Personal services/employee benefits	\$ 87,900	87,900	-	87,900
Contractual services	-	-	-	-
Other	6,100	6,100	-	6,100
Other Financing Uses	-	-	-	-
Total	\$ 94,000	94,000	-	94,000

	MOTOR VEHICLE PROGRAM			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other state funds	\$ -	-	1,110,114	1,110,114
Federal funds	-	261,052	-	(261,052)
Total revenues	-	261,052	\$ 1,110,114	849,062
Fund balance budgeted	-	500,000		
Total revenues and fund balance budgeted	\$ -	761,052		
Expenditures				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	-	261,052	-	261,052
Other	-	-	-	-
Other Financing Uses	-	500,000	500,000	-
Total	\$ -	761,052	500,000	261,052

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
DRIVE MVD FUND 79800
Year Ended June 30, 2012

FUND 798 Special Appropriation
MVD Fix Z90703

PROGRAM SUPPORT

	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other state funds	\$ -	-	1,523,169	1,523,169
Total revenues	-	-	<u>1,523,169</u>	<u>1,523,169</u>
	\$ -			
Fund Balance Budgeted		-		
	\$ -	-		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other	-	-	-	-
Other Financing Uses	-	-	-	-
Total expenditures	\$ -	-	-	-

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
NATIVE AMERICAN FUND 10690

	TAX ADMINISTRATION ACT			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other state funds	\$ -	-	-	-
Federal funds	-	-	-	-
Total revenues	-	-	\$ -	-
Fund balance budgeted	53,352	53,352		
Total revenues and fund balance budgeted	\$ 53,352	53,352		
Expenditures				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other	-	53,352	-	53,352
Other financing uses	-	-	-	-
Total expenditures	\$ -	53,352	-	53,352

See Notes to Financial Statements.

FUND 10690 Special Appropriations
Native American PIT Settlement Z10509

	TAX ADMINISTRATION ACT			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State General Fund Appropriations	\$ -	-	1,416	(1,416)
Total revenues	-	-	1,416	(1,416)
Fund Balance Budgeted	250,000	250,000		
Total	\$ 250,000	250,000		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other	225,000	225,000	65,502	159,498
Other Financing Uses	25,000	25,000	25,000	-
Total expenditures	\$ 250,000	250,000	90,502	159,498

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
WEIGHT DISTANCE TAX PERMIT FUND 99400
Year Ended June 30, 2012

MOTOR VEHICLE PROGRAM				
	<u>Budgeted Amounts</u>		<u>Budgetary Basis Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Other state funds	\$ 949,100	949,100	2,510,282	1,561,182
Total revenues	949,100	949,100	\$ 2,510,282	1,561,182
Fund balance budgeted	-	730,000		
Total revenues and fund balance budgeted	\$ 949,100	1,679,100		
Expenditures				
Personal services/employee benefits	\$ 558,300	558,300	146,040	412,260
Contractual services	40,000	40,000	-	40,000
Other	350,800	350,800	10,965	339,835
Other Financing Uses	-	730,000	730,000	-
	\$ 949,100	1,679,100	887,005	792,095

TAX ADMINISTRATION PROGRAM				
	<u>Budgeted Amounts</u>		<u>Budgetary Basis Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Other state funds	\$ 1,039,100	1,039,100	1,039,100	-
Total revenues	1,039,100	1,039,100	\$ 1,039,100	-
Fund balance budgeted	-	-		
Total revenues and fund balance budgeted	\$ 1,039,100	1,039,100		
Expenditures				
Personal services/employee benefits	\$ 921,100	896,100	563,414	332,686
Contractual services	-	6,000	-	6,000
Other	118,000	137,000	64,384	72,616
Other Financing Uses	-	-	-	-
	\$ 1,039,100	1,039,100	627,798	411,302

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2012

ASSETS

Interest in State Treasurer General Fund Investment Pool	\$	795,243,680
Cash on hand and in banks		2,506,074
Receivables:		
Counties, municipalities and fee agents		368,152
Due from State General Fund		173,888,651
Due from other state agencies		31,523,452
Due from taxpayers		755,143,570
Citations		26,183,585
Other - state dated warrants		145,156
Tax assessments		903,073,394
Allowance for uncollected (Citations and Tax Assessments)		<u>(929,256,980)</u>
 Total assets	 \$	 <u><u>1,758,818,734</u></u>

LIABILITIES

Unidentified tax collections	\$	234,652,061
Due to State General Fund		795,523,017
Due to counties and municipalities		287,413,251
Due to other state agencies		213,685,636
Due to other funds		3,859,095
Refunds due to taxpayers		220,652,414
Due to external parties		15,200
Other liabilities - state dated warrants		980,383
Reserved for litigated assessments		<u>2,037,677</u>
 Total liabilities	 \$	 <u><u>1,758,818,734</u></u>

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1. NATURE OF ORGANIZATION

The Taxation and Revenue Department (Department) was created under the Executive Reorganization Act of 1977 (Laws of 1977, Chapter 249, Section 9-11-4, NMSA 1978) to act as the state's principal agency for tax collection and administration. The chief executive of the Department is the Secretary, who is appointed by the Governor of New Mexico and is a member of the Governor's cabinet. These financial statements include all funds over which the Department Secretary has authority. The functions of the Department are administered through the following divisions:

Office of the Secretary. The Office provides overall leadership, administration, and support for the department. The Office sets forth policy for the administration and enforcement of tax laws, oversees Department operations and advises the Governor on matters of tax and motor vehicle policy.

Information Technology Division. The Information Technology Division provides technology services, resources, and tools to assist the Department in meeting its goals, objectives and performance measures. The director (Agency CIO) is responsible to the Deputy Secretary for all of the Department's computer hardware, software, network and internet resources.

Administrative Services Division. The Administrative Services Division ensures the Department meets its vision, mission, and objectives by providing guidance, information and expertise in the administrative support areas. The division consists of the Human Resources Bureau, General Services Bureau, Budget Bureau, Training Services Bureau, Financial Services Bureau and Financial Distribution Bureau.

Audit and Compliance Division. The Audit and Compliance Division collects tax and fee revenue through the fair, impartial and consistent application of New Mexico tax laws by implementing effective and timely collection, deposit and auditing activities.

Revenue Processing Division. The Revenue Processing Division is responsible for receiving, processing, depositing and accounting for all tax returns, registration requests, reports and money received from tax and motor vehicle programs administered by the Department.

Property Tax Division. The Property Tax division is responsible for administering and enforcing the Property Tax Code and recommending policies and procedures concerning property taxation. The Division Director is also responsible for establishing liaison with the county assessors and treasurers.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1. NATURE OF ORGANIZATION (CONTINUED)

Motor Vehicle Division. The Motor Vehicle Division is responsible for the administration of the Motor Vehicle Code. Responsibilities of the Division Director are to license motorists and maintain their records; register and title vehicles; license, regulate and inspect automobile dealers and dismantlers; collect taxes and revenues; provide timely information to law enforcement agencies and other government organizations and provide certain special services such as legal hearings and special license plates.

ONGARD Service Center. The ONGARD (Oil and Natural Gas Administration and Revenue Database) Service Center is responsible for maintaining and supporting the operations of the ONGARD computer system. The ONGARD Service Center is a multi-agency project comprised of Energy, Minerals and Natural Resources Department, State Land Office and the Taxation and Revenue Department.

Tax Fraud Investigations Division. The Tax Fraud Investigations Division is responsible for investigations of various types of tax fraud, motor vehicle fraud and other financial crimes. The division consists of the Internal Audit Bureau, Internal Investigations Bureau and the Tax Fraud Investigations Bureau.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting and issues statements that establish the financial reporting requirements for state and local governments throughout the United States. The Department is responsible for the fair presentation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America. The Department has prepared required supplementary information entitled, *Management's Discussion and Analysis*, which precedes the basic financial statements.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Reporting Entity. The financial reporting entity as defined by GASB Statement 14 consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government."

A primary government is any state or general purpose local government consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The Department, therefore, is part of the primary government of the State of New Mexico and its financial data should be included with the financial data of the State. However, New Mexico does not at present issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government. The Department is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. The Department has no component units.

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 nonfiduciary activities of the Department. Inter-fund balances have been eliminated in the government-wide financial statements. It is the Department's policy to eliminate the internal activity; therefore, amounts due to and due from the agency funds are reported in the statement of net assets as due to and due from external parties.

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. The Department's program revenues consist of operating grants that are restricted to meeting the operational requirements of a particular function or segment. General fund appropriations and other items not properly included among program revenues are reported instead as general revenues. When an expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the Department's policy to use restricted resources first. When expenditures are incurred for purposes, for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the Department's policy to spend committed resources first.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The Department's major individual funds are reported as separate columns in the fund financial statements.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation. The accounts of the Department are organized on the basis of funds, each of which is considered a separate accounting entity. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The government-wide and agency fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Derived tax revenues are recognized when the underlying exchange transaction takes place. The Department estimates the amount receivable at year end primarily by looking at subsequent cash receipts up to 120 days past year end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 Department considers revenues to be available if they are collected within 60 days after the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

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

State appropriations, derived tax revenues, federal grant revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available when the Department receives cash.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Department reports the following major governmental funds:

The General Fund is the Department's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. The Department's operations are funded primarily by appropriations from the State General Fund, which are recorded as revenues in the general fund in the year appropriated.

The General Fund includes an appropriation for the *Weight Distance Tax Permit Fee Fund*, the purpose of which is to provide an account from which the Department may pay the costs of issuing and administering weight distance tax identification permits. The General Fund also includes the *MVD Drive Fund*, the purpose of which is to provide an account from which the Department may track costs associated with the implementation of MVD's new IT system.

The General Fund also includes special appropriations for the Native American Fund. The net assets of this fund are used for Native American personal income tax refunds, for Native American veterans who may have been exempt from paying state personal income taxes on their military income, but may have had state personal income taxes withheld from their military income.

Additionally, the Department reports the following fund types:

Capital Project Funds

TRIMS Capital Project Fund. This capital project fund accounts for the acquisition of capital assets or design and development of the Department's major computer processing systems. The TRIMS Fund was designated by the Department as a major fund for tracking purposes upon enactment of the initial appropriation and through the first fiscal years. There have been no further appropriations to the TRIMS Fund and it was not budgeted in the current year.

Capital Improvement Projects. This capital project fund accounts for various capital improvement projects. Due to lack of activity, it was not budgeted in the current year.

Special Revenue Fund. Special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes.

The Property Valuation Fund is a special revenue fund. The Property Valuation Fund (Section 7-35-3 NMSA 1978) was created via a special appropriation. The net assets of this fund are legally restricted for loans to counties to assist with residential and non-residential property valuations. Due to the lack of activity, this fund is not budgeted.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Funds. Fiduciary funds account for assets held by the Department in a trustee capacity or as an agent for individuals, private organizations other government units and/or funds. The fiduciary fund type includes agency funds, which are custodial in nature and do not present results of operations. Agency funds are used to account for assets that the Department holds for others in an agency capacity. It is comprised of collection funds, which account for all activity of the tax programs administered by the Department, unclaimed property and fuel users/suppliers bonds. Unmatched money (money that cannot be matched to tax returns) over sixty days is remitted to the State General Fund per statute. These funds are subject to be refunded to the taxpayer or subject to being distributed to local governments once the proper tax return is identified and matched to the funds. The balance of the unmatched money sent to the State General Fund as of June 30, 2012 was \$96.8 million.

The Department has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Department has elected to not apply FASB pronouncements issued after the applicable date.

Cash Deposits and Interest in State Treasurer General Fund Investment Pool. The Department is required by statute to remit any money received for or on behalf of the state into the state treasury. Money deposited by the Department with the State Treasurer is pooled and invested by the State Treasurer. Investment securities are exposed to custodial credit risk when the securities are uninsured and not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the agency's name. Specific pledged collateral for amounts held by the State Treasurer is included in the State Treasurer's separately issued financial statements.

Cash in transit and in banks is comprised of monies received by the various Department field and port of entry collection offices initially deposited in local banks. On a daily basis, cash in local banks is transferred to the State Treasurer.

"Interest in the State Treasurer General Fund Investment Pool" is comprised of all of the Department's accounts placed in the custody of the State Treasurer.

Cash on hand (petty cash and change funds) represents imprest amounts at motor vehicle field offices.

Inventory of Supplies. Inventory is valued at cost (first-in, first-out valuation basis). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased. Inventories at year-end are reported as assets of the General Fund and are equally offset by a fund balance reserve, which indicates it is unavailable for appropriation, even though it is a component of reported net assets.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets. Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Department as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such 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.

The Department utilizes works of art and historical treasures, in addition to facilities and buildings that are owned by the Property Control Division of the State of New Mexico General Services Department. These assets and the related depreciation expense are not included in the accompanying financial statements, since they are not owned by the Department. GASB 34 requires the recording and depreciation of infrastructure assets, such as roads, bridges, etc. The Department does not own any infrastructure assets. Property and equipment of the Department is depreciated using the straight-line method over the following estimated useful lives:

Furniture and fixtures	7 years
Software	8 years
Data processing equipment	5 years
Machinery and equipment	5 years
Vehicles	5 years
Tenant leasehold improvements	15 years

Compensated Absences. Employees are permitted to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements.

Qualified employees are entitled to accumulate vacation leave according to a graduated leave schedule of 80 to 160 hours per year, depending upon the length of service and the employee's hire date. A maximum of thirty working days (240 hours) of such accumulated vacation leave may be carried forward into the beginning of the subsequent calendar year with any excess forfeited.

When employees terminate, they are compensated for accumulated unpaid vacation leave at the date of termination, up to a maximum of thirty days (240 hours).

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave which an employee may accumulate. Once per fiscal year in either January or July, employees may elect to be paid for 50 percent of accrued sick leave in excess of 600, up to 720 hours, not to exceed 120 hours. In the case of retiring employees, they may be paid for 50 percent of accrued sick leave in excess of 600, up to 1,000 hours, not to exceed 400 hours. All sick leave balances from 600 to 720 hours have been recorded at 50 percent of the employees' hourly rate in the government-wide financial statements.

Net Assets or Fund Equity. In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned, or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or in some cases by legislation. See Note 17 for additional information about fund balances.

Budgetary Data. The State Legislature makes annual appropriations to the Department. Legal compliance is monitored through the establishment of an annual budget for the general fund (Operating Fund 17200, Drive MVD Fund 79800, Weight Distance Tax Permit Fee Fund 99400 and the Native American Fund 10690). A budget is never prepared for the Property Valuation Fund, a special revenue fund.

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentations in these financial statements are consistent with this budgeting methodology.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following are the procedures followed in establishing the budgetary data presented in the financial statements:

1. The Department submits a proposed budget to the New Mexico state legislature for the fiscal year commencing the following July 1. The state legislature must approve the budget prior to the legal enactment.
2. The expenditures and encumbrances of each appropriation unit may not legally exceed the budget for that category. Budgets are controlled at the "appropriation unit" level within activities (personal services and benefits, contractual services, etc.).
3. Any adjustment to the budget must be submitted to and approved by the State of New Mexico Department of Finance and Administration State Budget Division in the form of a budget adjustment request.
4. Beginning in FY 2006, the annual budget, per the General Appropriations Act, Laws of 2006, Chapter 109, Section 3, Subsections N and O, was adopted on a modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978) must be paid out of the next year's budget. The modified accrual basis of accounting is consistent with generally accepted accounting principles (GAAP). Budgeted revenues may be less than budgeted expenditures as the ending fund balance may, in certain instances, be rebudgeted for expenditures in the next fiscal year. Budgetary comparisons presented in the financial statements are on a modified accrual basis of accounting.

The Department has been designated as a "reverting agency" by the New Mexico state legislature and, therefore, pursuant to the Laws of 2004, Chapter 114, Section 2(E), "unencumbered balances in agency accounts remaining at the end of the fiscal year 2012 shall revert to the [state] general fund by September 30, 2012, unless otherwise indicated in the General Appropriations Act of 2004 or otherwise provided by law."

5. The Department had a number of invoices where the goods and services were received by June 30, 2012 (FY12), but were unpaid by that date. In these circumstances, accounts payable amounts were not established in FY12 at fiscal year end because these amounts were immaterial to the financial statements. These payments were processed as "Requests to Pay Prior Year Bills" in FY12 and were paid from FY12 budget.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrances. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, was previously utilized in governmental funds. Beginning in FY 2005, the expenditure budget was established on the modified accrual basis. Encumbrances related to single-year appropriations lapse at fiscal year end.

The Department also receives funding from various special appropriations. The language of a particular special appropriation determines when it lapses and whether or not unexpended or unencumbered balances revert to the State General Fund.

Revenue Recognition. State General Fund appropriations are recognized as other financing sources in the year the appropriation is earned. Certain unexpended appropriations are reverted back to the State General Fund. Federal grant revenues are recognized as revenue when the expenditure is incurred.

Operating Transfers. Operating transfers represent transfers of funds from one fund to another fund when both funds are part of the same reporting entity. Transfers are not considered revenues by the receiving fund or expenditures by the disbursing fund. An operating transfer is a legally authorized transfer between funds in which one fund is responsible for the initial receipt of funds (tax collections) and another fund is authorized to use the resources to finance its operating expenditures.

NOTE 3. GENERAL FUND INVESTMENT POOL NOT RECONCILED

In June 2012, an independent expert diagnostic report revealed that the General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management Reporting system (SHARE) in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx. The document title is Current State Diagnostic of Cash Control.

The General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 3. GENERAL FUND INVESTMENT POOL NOT RECONCILED
(CONTINUED)**

As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the Taxation and Revenue Department's balances at the business unit/fund level is not possible.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items. The New Mexico Department of Finance & Administration is responsible for the monthly reconciliation of these accounts.

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at http://www.nmdfa.state.nm.us/Cash_Control.aspx.

The New Mexico Taxation and Revenue Department has established internal control procedures applying the State of New Mexico's Manual of Model Accounting Practices. Since the inception of SHARE, the Department's manual and automated tax information systems have been maintained and reconciled to ensure that cash flows are accurately represented within SHARE.

NOTE 4. CASH AND INTEREST IN THE GENERAL FUND INVESTMENT POOL

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

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 4. CASH AND INTEREST IN THE GENERAL FUND INVESTMENT POOL
(CONTINUED)**

At June 30, 2012, the Department had the following invested in the General Fund Investment Pool:

Interest in State Treasurer General Fund Investment Pool \$832,763,510

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

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

The Department’s cash funds, other than petty cash and change funds, are deposited into its accounts with the New Mexico State Treasurer’s Office, which are pooled and invested by the State Treasurer or deposited by the Department with local banks as State Agency cash deposits to the credit of the New Mexico State Treasurer’s Office.

Provisions of the New Mexico State Public Money Act (Article 10, Sections 6-10-1 to 6-10-63 NMSA 1978) require a bank to be qualified to receive deposits of public monies by depositing collateral security or by giving bond at a minimum level of 50 percent to collateralize governmental cash deposits when they exceed the amounts of depository insurance by the federal deposit insurance corporation (FDIC) or the national credit union administration. The State Treasurer’s Office financial statements disclose the type of purchased security investments held (i.e., bond, note, Treasury bill, etc.), categories of risk involved, security number, Committee on Uniform Securities Identification Procedures (CUSIP) identification number, fair market value, maturity date of securities held, name of the custodian and the place of safekeeping for all “collateral” pledged to secure State Agency cash deposits. The bank balances as of June 30, 2012, are entirely insured or collateralized with securities held by the agent in the bank’s name.

Cash in Banks consists of amounts temporarily deposited in local bank accounts statewide prior to being “swept” nightly into the department’s cash accounts at the State Treasurer’s Office.

Cash on hand (petty cash and change funds) in the amount of \$18,953 was held at the various Audit and Compliance Division (ACD) district offices and Motor Vehicle Division (MVD) field offices for change funds and small purchases.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer’s Office for the fiscal year ended June 30, 2012.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 5. RECEIVABLES

Tax assessments represent issued and uncollected assessments at fiscal year-end. As collections of tax assessments and citations cannot be assured, these assessments are not expected to be collected within one year, and a provision for uncollected has been established for all of the tax assessments and citations. The other receivables are considered collectable since they were accrued at year end from information reported to the Department within the accrual period.

\$129,488,306 of the active tax assessments issued by the Department and listed below are under protest and/or subject to litigation.

At June 30, 2012, the Department's receivables, including the applicable allowances for uncollectable accounts are as follows:

	Governmental Funds		Fiduciary Funds
	General	Special Revenue	Agency
Receivables:			
Accounts receivable	\$ 18,803	-	-
Federal grants	387,650	-	-
County property valuation loans	-	284,083	-
Other receivables – stale dated warrants	-	-	145,156
Citations	-	-	26,183,585
Tax assessments considered uncollectible	-	-	903,073,394
Gross receivables	406,453	284,083	929,402,135
Allowance for uncollectibles	(17,057)	(240,000)	(929,256,980)
Total receivables, net	\$ 389,396	44,083	145,155
Due From:			
Other funds	\$ 3,846,695	-	-
Taxpayers	-	-	755,143,570
Local governments	-	-	368,152
State General Fund	-	-	173,888,651
Other agencies	1,615	78	31,523,452
Total Due From:	\$ 3,848,310	78	960,923,825
Write Offs:			
Receivables written off to date	\$ -	-	-
Receivables written off in FY12	-	-	-
Receivables recovered in FY12	-	-	-
Total Write Offs:	\$ -	-	-

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 5. RECEIVABLES (CONTINUED)

Following is a description of the accounts receivable recorded by the Department:

Accounts Receivable

Receivables are recorded in connection with payroll employee overpayments, PERA buybacks and database access fee revenues. To date, an allowance of \$17,057 has been recorded for accounts where collection cannot be assured. In FY12, no receivable were determined to be uncollectible. Article IV Section 32 of the New Mexico Constitution provides:

No obligation or liability of any person, association or corporation held or owned by or owing to the state, or any municipal corporation therein, shall ever be exchanged, transferred, remitted, released, postponed or in any way diminished by the legislature, nor shall any such obligation or liability be extinguished except by the payment thereof into the proper treasury, or by proper proceeding in court.

The Department does not forgive debt or indicate that a debt properly owed has been forgiven or that the person owing the debt has been released from its payment. The Department maintains records and information concerning all debts due, including the ones that have been recognized as being doubtful. Collection efforts are made on all debt including accounts where collection cannot be assured.

Federal Grants

The Due from Federal Government account represents expenditures incurred under federal grant programs that will be reimbursed by the federal government. All account balances are considered collectible.

County Property Valuation Loans

The loans to counties represent loans made to provide technical assistance in the areas of property valuation, mapping and reappraisal. An allowance for uncollectible loans of \$240,000 has been recorded for accounts where collection cannot be assured.

Other Receivables – Stale Dated Warrants

Represents warrants that are over twelve months old that need to be restored to the Interest in State General Fund Investment Pool account by the Department of Finance and Administration. No estimate for uncollectible accounts is recorded because the account balance is considered fully collectible.

Citations

Pursuant to state statute Section 66-8-116 NMSA 1978, citations represent “penalty assessments” for violations of the Motor Vehicle Code (Section 66-1-1 NMSA 1978) for traffic offenses. An estimate for uncollectible accounts equal to the penalty assessment amount is recorded where collections cannot be assured.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 5. RECEIVABLES (CONTINUED)

Tax Assessments

Pursuant to state statute Section 7-1-17.A. NMSA 1978, tax assessments represent the determination by the Department that a taxpayer is liable for taxes that are due. Section 7-1-17.B. NMSA 1978 states “assessment of tax are effective (1) when a return of a taxpayer is received by the Department showing a liability for taxes; (2) when a document denominated “notice of assessment taxes”, issued by the Department is mailed or delivered in person to the taxpayer against whom the liability for tax is asserted, demanding of the taxpayer the immediate payment of the taxes and briefly informing the taxpayer of the remedies available to the taxpayer; or (3) when an effective jeopardy assessment is made as provided in the Tax Administrative Act (7-1-1 NMSA 1978).” An estimate for uncollectible accounts equal to the taxpayers assessment amount is recorded where collections cannot be assured.

Due From Other Funds

The Department records due from other internal, fiduciary funds for revenues that are measurable and available as of June 30, 2012. The Department considers revenue to be available if they are collected within 60 days after the end of the current fiscal year.

Due From Taxpayers

Represents assets recognized from derived taxes revenue transactions in the period when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. No estimate for uncollectible accounts is recorded since the receivable is based on when resources are received.

Due From State General Fund

Represents taxes collected that are over sixty days old that have not been matched to a tax return and are less than three years old that are eligible for refund pursuant to Section 7-1-26 NMSA 1978 and that have been transferred to the State General Fund in accordance with Section 7-1-6.1 NMSA 1978. No estimate for uncollectible accounts is recorded because the account balance is considered fully collectible.

Due From Other Agencies

The Department works with other agencies to determine outstanding revenues due at June 30, 2012.

Write Offs

The Department’s policy does not allow for write offs of outstanding receivables. For receivables where collection cannot be assured, the Department will record an allowance for doubtful accounts.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 5. RECEIVABLES (CONTINUED)

Receivables – Fiduciary Funds Tax Assessments

At June 30, 2012, tax assessments and penalty citations issued and uncollected by the Fiduciary Fund Type were:

Compensating and withholding taxes	\$ 543,095,861
Personal income tax	236,221,297
Corporate income tax	41,616,083
Gasoline tax	30,650,175
Citations	26,183,585
Special fuel supplier	24,995,037
Cigarette tax	7,712,155
Petroleum products loading fee	5,501,937
Combined fuel tax	2,065,614
Tobacco products	2,481,493
Enhanced 911 tax	1,767,067
Weight distance tax	1,752,298
Restitution	802,254
Workers' compensation tax	668,208
Delinquent tax	597,617
Fiduciary income tax	592,935
Unclaimed property	35,376
Liquor excise tax	27,346
Water conservation fees	19,298
Estate tax	17,203
Daily bed surcharge	4,425
Telecommunications relay surcharge	2,260
Gaming tax	2,141
Bingo and raffle tax	1,880
Local liquor tax	1,206
Alternative fuel distributors tax	798
Railroad car tax	6
Oil and gas tax programs:	
ONGARD oil and gas taxes (OGT)	<u>2,441,425</u>
 Total receivables, fiduciary funds tax assessments	 <u>\$ 929,256,980</u>

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Governmental activities:				
Capital assets being depreciated:				
Furniture and fixtures	\$ 1,189,277	34,326	-	1,223,603
Software	17,508,245	1,794,507	-	19,302,752
Data processing equipment	6,064,815	636,377	(771,688)	5,929,504
Machinery and equipment	2,902,906	5,183	(72,775)	2,835,314
Tenant leasehold improvements	712,762	-	-	712,762
Vehicles	<u>82,454</u>	<u>-</u>	<u>-</u>	<u>82,454</u>
Total capital assets being depreciated	<u>28,460,459</u>	<u>2,470,393</u>	<u>(844,463)</u>	<u>30,086,389</u>
Less accumulated depreciation for:				
Furniture and fixtures	(1,003,663)	(139,159)	-	(1,142,822)
Software	(11,103,176)	(1,457,913)	-	(12,561,089)
Data processing equipment	(4,680,928)	(515,408)	491,136	(4,705,200)
Machinery and equipment	(2,518,457)	(143,019)	72,775	(2,588,701)
Tenant leasehold improvements	(218,232)	(47,517)	-	(265,749)
Vehicles	<u>(69,595)</u>	<u>(6,300)</u>	<u>-</u>	<u>(75,895)</u>
Total accumulated depreciation	<u>(19,594,051)</u>	<u>(2,309,310)</u>	<u>563,911</u>	<u>(21,339,456)</u>
Capital assets, net	\$ <u>8,866,408</u>	<u>161,083</u>	<u>(280,552)</u>	<u>8,746,933</u>

Depreciation expense of \$2,309,310 was charged to the following programs:

Program Support	\$ 1,901,773
Tax Administration Act	278,702
Compliance Enforcement	3,892
Motor Vehicle Program	<u>124,943</u>
	<u>\$ 2,309,310</u>

Capital asset activity included \$2,470,393 of capital outlay acquisitions, primarily for purchases of data processing equipment and software.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 6. CAPITAL ASSETS (CONTINUED)

For the Statement of Activities, depreciation expense is included as expenditures and allocated to the programs using actual depreciation expense for each program.

NOTE 7. INTER/INTRA FUND RECEIVABLES AND PAYABLES

Inter-fund transfers are made between the governmental funds of the Department to correct recording errors noted at year-end. Transfers also occur between agency funds and governmental funds of the Department for administrative fees that help pay for the operating costs of certain tax programs in accordance with state laws.

The inter-fund receivables and payables (due to and from other funds) reported in the financial statements represent outstanding cash transfers as of June 30, 2012 and are comprised of the following balances:

<u>Fund</u>	<u>Fund Description</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Operating Funds:			
17200	General Fund – Operations	\$ 3,181,968	
79800	Drive MVD	484,382	-
10690	Native American		560
99400	Tax Identification Fund	<u>180,345</u>	<u>-</u>
Total Operating Funds		<u>3,846,695</u>	<u>560</u>
Fiduciary Funds:			
27900	Corporate Income Tax	66,989	-
64200	PIT (TAA) Suspense	-	66,989
68000	HazMat Finger Printing Fee	17,000	8,995
68100	County & Municipal Gasoline	7,992,384	-
68200	County & Muni Recreation	586	-
68300	County & Municipal Cigarette	1,172	-
68400	Small Cities Assistance	2,001,878	-
70900	Local Liquor Excise Tax	206,774	-
71300	Oil & Gas Ad Valorem Prod. Tax	28,480,241	-
71500	Ad Valorem Equipment Tax	588	-
81900	Income Tax Suspense	-	917
82500	Transportation & MVD Suspense	-	2,195,545
82800	TAA Suspense Fund	501,152	8,712,227
83000	Delinquent Property Tax	-	450,549
83100	Workers' Compensation Fund	-	151,676
83200	CRS (TAA) Suspense	-	3,047,172
83300	Oil & Gas Suspense Fund	<u>-</u>	<u>28,480,829</u>
Total Fiduciary Funds		<u>39,268,764</u>	<u>43,114,899</u>
Total Interfund Balances		\$ <u>43,115,459</u>	<u>43,115,459</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 8. INTRA-FUND TRANSFERS

Within the agency funds of the Department, tax collections recorded in one agency fund are transferred to and distributed out of another agency fund in accordance with state laws. The balances represent the transfers made during the fiscal year. Since the transfers are between the tax programs within the fund, the following amounts are eliminated for combining purposes to avoid any duplication of account balances:

Additions:	
Personal Income Tax Suspense	\$ 343,291,862
TAA Suspense / Other	34,442,715
Oil and Gas	<u>135,961,251</u>
Total	<u>\$ 513,695,828</u>
Deductions:	
CRS Suspense	\$ 343,291,862
TAA Suspense / Other	34,442,715
Oil and Gas	<u>135,961,251</u>
Total	<u>\$ 513,695,828</u>

NOTE 9. LEASES

Operating Leases. The Department leases facilities and equipment under numerous operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Department's Statement of Net Assets. Leases are subject to future appropriation and are cancelable by the Department at the end of each fiscal year. For the year ended June 30, 2012, facilities rental expenditures were \$3,416,019.

NOTE 10. LIABILITIES

Current Liabilities. The Department's General Fund total current liabilities during the fiscal year were \$8,455,137. The General Fund accounts payable of \$3,887,444 consists of goods or services received by the Department by June 30, 2012 but paid after June 30, 2012. The General Fund accrued payroll of \$1,970,114 consists of payroll expenditures incurred from June 23, 2012 through June 30, 2012 but paid after June 30, 2012.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 10. LIABILITIES (CONTINUED)

The Department has an estimated potential loss of \$527,119 regarding pending cases in which it has been estimated that there is a 75% chance of an unfavorable outcome. The Department has recorded the pending settlement as a long term liability and expenditure in the Statement of Net Assets and Statement of Net Activities.

Compensated Absences. Compensated absences for the year ended June 30, 2012 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences payable	\$ 2,268,680	3,841,040	(4,047,032)	2,062,687	2,062,687

For the Statement of Activities, change in compensated absences included as expenditures is allocated to the programs using a payroll allocation percentage. Amounts have been paid out of the General Fund in the past.

NOTE 11. DUE TO STATE GENERAL FUND (REVERSIONS)

Unexpended and unencumbered cash balances of certain funds revert to the State General Fund at year-end. For certain funds, cash recoveries during the fiscal year from stale-dated warrants are also due to the State General Fund. Current year reversions due to the State General Fund as of June 30, 2012 were as follows:

Reversions:	
<u>FY 12 Reversion</u>	
State Land Office	
Expenditure reversions	2,532,157
Revenue reversions	<u>17,706</u>
Total FY12 Reversions	2,549,863
Stale Dated Warrants	<u>2,805</u>
Total due to State General Fund at June 30, 2012	<u>\$ 2,552,668</u>

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 12. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description. Substantially all of the Department's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 10.67% of their gross salary. The Department's is required to contribute 13.27% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department's contributions to PERA for the years ending June 30, 2012, 2011 and 2010 were \$4,797,082, \$5,923,066 and \$6,292,188, respectively, equal to the amount of the required contribution for each year.

NOTE 13. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 13. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)

between the employer’s effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee’s annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal year ending June 30, 2013, the contribution rates for employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY 13	2.000%	1.000%

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 13. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)

The Department's contributions to the RHCA for the years ended June 30, 2012, 2011 and 2010 were \$656,246, \$649,808 and \$535,225, respectively, which equal the required contributions for each year.

NOTE 14. RISK MANAGEMENT

The Department is exposed to various risks of loss for which the Department carries insurance (Auto; Employee Fidelity Bond; General Liability; Civil Rights and Foreign Jurisdiction; Law Enforcement Officers Liability; Money and Securities; Property; and Workers' Compensation) with the State of New Mexico Risk Management Division.

NOTE 15. CONTINGENCIES

Federal Grant Programs. The Department participates in numerous federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Department has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectibility of any related receivable as of June 30, 2012, may be impaired.

In the opinion of the Department, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Expenditures disallowed and required to be repaid to the grantor agencies as a result of such audits, if any, would require an appropriation from the State General Fund.

Pending or Threatened Litigation. There are various lawsuits by taxpayers claiming refunds from various tax programs for taxes under protest totaling \$129,488,306 for the fiscal year. In addition, there are various lawsuits by taxpayers claiming refunds from various tax programs where no specified dollar amount under protest has been identified. Management intends to contest all cases vigorously. Any liability would be paid for out of the Department's agency funds.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 15. CONTINGENCIES (CONTINUED)

The Department may incur costs of \$527,119 pending a legal settlement. The Department has recorded the liability in the Statement of Net Assets.

The Department is also subject to other legal proceedings, claims and liabilities, including employee claims, which arise in the ordinary course of the Department's operations. The litigation is being handled through the General Services Department, Risk Management Division. In the opinion of the Department's management and in-house legal counsel, the ultimate resolution of the above matters will not have a material adverse impact on the financial position or results of operations of the Department.

NOTE 16. JOINT POWERS AGREEMENTS / MEMORANDUMS OF UNDERSTANDING

ONGARD Service Center

The Department participates in a Joint Powers Agreement (JPA) with the Commissioner of Public Lands and the Energy, Minerals and Natural Resources Department to operate the Oil and Natural Gas Administration and Revenue Database (ONGARD).

- Responsible Party: The Taxation and Revenue Department
- Time period: January 14, 2004 to indefinite
- FY12 Amount of Project: \$1,484,712
- Portion Applicable to NMTRD: \$985,812 State General Fund
- Audit Responsibility: NMTRD
- Revenue Reported: NMTRD

OHKAY Owingeh

The Department participates in a Joint Powers Agreement (JPA) with Ohkay Owingeh, a federally-recognized Indian tribe to facilitate the assessment and enforcement of taxes on gasoline and receipts from the sale of gasoline imposed by the State of New Mexico and the Tribe within their respective jurisdictions.

- Responsible Party: The Taxation and Revenue Department
- Time period: January 22, 2010 to indefinite
- FY12 Amount of Project: -0-
- Portion Applicable to NMTRD: -0-
- Audit Responsibility: NMTRD
- Revenue Reported: N/A

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 16. JOINT POWERS AGREEMENTS / MEMORANDUMS OF
UNDERSTANDING (CONTINUED)**

City of Santa Fe

The Department participates in an MOU with the City of Santa Fe. The City of Santa Fe will allow TRD employees parking at the Santa Fe City Convention Center parking lot and metered parking using cash keys. TRD will pay the parking fees to the City of Santa Fe Parking Division for TRD employees that utilize the SFCCC parking garage and the purchase of cash key reloads.

- Responsible Party: NMTRD
- Time period: Expires July 1, 2012
- Amount of Project: Based on parking usage
- Portion Applicable to NMTRD: 100%
- Audit Responsibility: NMTRD
- Revenue Reported: City of Santa Fe

UNM Forecasting Services

The Department participates in an MOU with the Department of Finance and Administration, the Legislative Finance Committee, the Department of Transportation, and the Regents of the University of New Mexico for the purchase of four long-term, quarterly forecasts.

- Responsible Party: UNM
- Time period: July 1, 2010 to June 30, 2012
- Amount of Project: \$100,814
- Portion Applicable to NMTRD: \$29,848
- Audit Responsibility: NMTRD
- Revenue Reported: UNM

Bernalillo County Metropolitan Court

The Department participates in an MOU with the Bernalillo County Metropolitan Court, Central Parking Division to provide parking in the Metro Park Parking Structure for law enforcement officers and TRD Legal Staff attending DWI hearings as witnesses.

- Responsible Party: NMTRD
- Time period: July 6, 2011 to June 30, 2012
- Amount of Project: Based on hourly rate and amount of usage.
- Portion Applicable to NMTRD: 100% of cost incurred
- Audit Responsibility: NMTRD
- Revenue Reported: Bernalillo County Metropolitan Court, Central Parking Division

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 16. JOINT POWERS AGREEMENTS / MEMORANDUMS OF
UNDERSTANDING (CONTINUED)**

Department of Homeland Security

The NM Motor Vehicle Division participates in an MOU with the Department of Homeland Security, U.S. Citizenship and Immigration Services to establish the terms and conditions governing the participation of the Department to provide the specified benefit in the DHS-USCIS Systematic Alien Verification for Entitlements (SAVE) Program for the purpose of verifying citizenship and immigration status information of non-citizen and naturalized or derived U.S. citizen applicants applying for Drivers Licenses and Identification Cards. The Department of Homeland Security will provide an initial verification by SAVE to an on-line inquiry, additional verification procedures where applicable, and a response to a properly submitted Form G-845.

- Responsible Party: Department of Homeland Security
- Time period: February 15, 2011 indefinitely
- Amount of Project: Based on standard billing rates and amount of usage.
- Portion Applicable to NMTRD: 100% of cost incurred
- Audit Responsibility: NMTRD
- Revenue Reported: Department of Homeland Security

NM Regulation and Licensing Department

The Department participates in an MOU with the Regulation and Licensing Department (RLD) to facilitate the exchange of information from NM Regulation and Licensing Department to the Taxation and Revenue Department concerning certain licensees of occupational and professional licensing boards and commissions contained in databases maintained by Regulation and Licensing Department.

- Responsible Party: NMRLD
- Time period: October, 2010 indefinitely
- Amount of Project: \$0
- Portion Applicable to NMTRD: None
- Audit Responsibility: NMTRD
- Revenue Reported: N/A

NM Department of Health

The Department participates in an MOU with the NM Department of Health (DOH) to develop procedures and a methodology for interfacing to share information necessary for processing rural health care practitioner credits. NMSA 1978 Statute 7-2-18.22 creates an income tax credit for rural health care practitioners. To qualify for the tax credit, a practitioner must submit an application to the DOH, and the DOH must determine whether the practitioner qualifies for the credit and provide information to the TRD concerning those health care practitioners who are determined to be qualified for the credit.

- Responsible Party: NMTRD
- Time period: September, 2010 indefinitely

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 16. JOINT POWERS AGREEMENTS / MEMORANDUMS OF
UNDERSTANDING (CONTINUED)**

- Amount of Project: \$0
- Portion Applicable to NMTRD: None
- Audit Responsibility: NMTRD
- Revenue Reported: N/A

NM Secretary of State

The Department participates in an MOU with the NM Secretary of State (SOS) to facilitate the exchange of voter registration and uniform commercial code information from the Office of the Secretary of State to the Taxation and Revenue Department. On March 30, June 30, September 30, and December 30 of each year, SOS will provide voter registration and uniform commercial code information contained in the databases of SOS. The information provided by SOS will be used to promote tax compliance.

- Responsible Party: NMSOS
- Time period: November, 2010 indefinitely
- Amount of Project: \$0
- Portion Applicable to NMTRD: None
- Audit Responsibility: NMTRD
- Revenue Reported: N/A

Central NM Community College

The Department's Motor Vehicle Division (MVD) participates in an MOU with Central NM Community College for third party testing of Commercial Driver License applicants in compliance with the provisions of the New Mexico Commercial Driver's License Act. MVD authorizes CNM to administer the commercial driver's license skills tests for driving a commercial vehicle and for related endorsements as required by Sec. 66-5-60, NMSA 1978.

- Responsible Party: NMCNM
- Time period: June 17, 2011 through July 1, 2012
- Amount of Project: \$0
- Portion Applicable to NMTRD: None
- Audit Responsibility: NMTRD
- Revenue Reported: N/A

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 16. JOINT POWERS AGREEMENTS / MEMORANDUMS OF
UNDERSTANDING (CONTINUED)**

NM Office of the Governor

The Department participates in an MOU by and between the Office of the Governor; The Human Services Department; The Public Defender Department; The Children Youth and Families Department; Aging & Long Term Services Department; State Fair Commission; Commission for the Blind; Workers' Compensation Administration; General Services Department; Department of Information Technology; Department of Public Safety - Motor Transportation Division; The Department of Health; The Regulation and Licensing Department; The Department of Cultural Affairs; The Department of Workforce Solutions; The Division of Vocational Rehabilitation; The Public Education Department; The Miners Colfax Medical Center; The Environment Department; The Corrections Department; The Department of Transportation; and the Department of Finance and Administration. The parties to this MOU are also parties to a Professional Services Contract entered into with Management Associates, Inc. to provide advice and assistance in the State of NM preparation for collective bargaining negotiations and other labor issues.

- o Responsible Party: Office of the Governor
- o Time period: May 2011 indefinitely
- o Amount of Project: \$250,000
- o Portion Applicable to NMTRD: \$15,327.99
- o Audit Responsibility: NMTRD
- o Revenue Reported: N/A

NM Department of Public Safety

The Department participates in an MOU with the Department of Public Safety (DPS), Motor Transportation Police Division to increase the enforcement and collections of weight distance tax (WDT) and trip tax efforts by both the MTPD and TRD. DPS will hire temporary personnel to check weight distance tax and trip tax compliance of commercial vehicles entering the State.

- o Responsible Party: NMCNM
- o Time period: January, 2009 through June 30, 2015
- o Amount of Project: \$386,774
- o Portion Applicable to NMTRD: \$386,774
- o Audit Responsibility: NMTRD
- o Revenue Reported: NMDPS

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 16. JOINT POWERS AGREEMENTS / MEMORANDUMS OF
UNDERSTANDING (CONTINUED)**

Central New Mexico Community College CD-2

The Department participates in an agreement with the Central New Mexico Community College for the purpose of testing commercial driver license applicants in compliance with the provisions of the New Mexico Commercial Driver's License Act (Sections 66-5-52 through 66-5-70 NMSA 1978, as amended) and 49 CFR 383.75 and 49 CFR 383.123.

- Responsible Party: NM Taxation and Revenue Department
- Time period: July 2012
- Amount of Project: \$0
- Portion Applicable to NMTRD: \$0
- Audit Responsibility: NMTRD
- Revenue Reported: N/A

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 17. GOVERNMENTAL FUND BALANCES - RESTRICTED AND COMMITTED

The Department's fund balances represent: (1) Restricted Purposes which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; (2) Committed Purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches. A summary of the nature and purpose of these reserves by fund type at June 30, 2012, follows:

Fund/Program	Laws	Committed Purposes	Restricted Purposes
General Fund:			
Native American Settlement	Laws of 2009, Chapter 124, Section 5, \$1,000,000 does not revert	\$ 56,610	-
Native American Settlement	Laws of 2011, Chapter 179, Section 5, \$250,000 through FY12	160,915	-
Gentax Upgrade	Laws of 2012, Chapter 19, Section 7, Item 4, \$6,230,000 through FY14	6,030,000	-
ONGARD Upgrade	Laws of 2012, Chapter 19, Section 7, Item 5, \$6,000,000 through FY14	1,035,317	-
Replace MVD System	Laws of 2011, Chapter 179, Section 7, \$8,042,500 through FY13	8,042,500	-
Total General Fund:		<u>15,325,342</u>	<u>-</u>
Capital Improvements Projects Fund 88500:			
TRD Tax Policy Project	Laws of 2007, Chapter 42, Section 73	-	-
Total Fund Balance - Committed for Special Appropriations		<u>\$ 15,325,342</u>	<u>-</u>
Fund Balance - Reserved:			
General Fund:			
AAMVA		\$ 3,000	
Financial Responsibility Act	NMSA 1978, Section 66-5-201 and 66-6-23A(5)(e)	-	895,282
EDL - Enhanced Driver's License	NMSA 1978, Section 66-5-44, C	-	2,923,266
Delinquent Property Tax	NMSA 1978, Section 7-38-62	-	5,009,408
PIT Intercept Administration Fees	NMSA 1978, Section 7-2C-12	-	256,479
MVD Non-Reverting Revenues	Laws of 2009, Chapter 156, Section 1 through 7	1,240,853	1,217,188
Out of State DWI Verification	NMSA 1978, Section 66-5-44, B	-	645,284
Drive MVD Fund 79800	Laws of 2009, Chapter 156, Section 1 through 7	1,557,939	
Weight Distance Tax Fund 99400	NMSA 1978, 7-15A-14	3,849,527	
Total General Fund Balance - Restricted / Committed for Subsequent Years' Expenditures		<u>6,651,319</u>	<u>10,946,907</u>
Property Valuation Fund 34800 (Loans NMSA 1978, 7-35-3(B))		422,428	
Total Fund Balance		<u>\$ 22,399,089</u>	<u>10,946,907</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 18. REVENUES

General fund revenue reported for the year ended June 30, 2012 consisted of the following:

	General Fund	Other Governmental Funds	Total Governmental Funds
Other State Funds:			
Delinquent Property Tax	\$ 4,753,165	-	4,753,165
Workers Comp Assessment	622,191	-	622,191
Alcoholic Beverage Tax	61,556	-	61,556
Unclaimed Property	404,800	-	404,800
Sale of MVD Data	6,644,935	-	6,644,935
Vehicle Registration Royalties	-	-	-
Motor Vehicle - Special Plates	116,262	-	116,262
Temporary Permits	64,429	-	64,429
Private Retail Agents	864,143	-	864,143
Enhanced Drivers License (EDL)	1,796,291	-	1,796,291
Parental Responsibilities	99,875	-	99,875
Provisional License	213,162	-	213,162
Hazmat Fingerprinting	162,180	-	162,180
Financial Responsibilities	3,504,522	-	3,504,522
Motorcycle & Off Highway Registration Fee	346,167	-	346,167
Out of State DWI Verification Interlock	454,020	-	454,020
Weight Distance Tax Administrative Fees	3,549,382	-	3,549,382
Motor Vehicle Admin Fees	3,164,654	-	3,164,654
STB Bonds for Capital Assets	-	-	-
Interest Income	-	94	94
Other Admin Fees (PIT & GRT)	6,143,143	-	6,143,143
Misc. Revenue - Program	6,699	-	6,699
Total Other State Funds	32,971,576	94	32,971,670
Other Financing Sources:			
Revenue to operate Native American Fund	13,917	-	13,917
Other Gifts and Grants	-	-	-
Total Other Financing Sources	13,917	-	13,917
State General Fund:			
State General Fund Appropriations	52,927,500	-	52,927,500
Special Appropriations	7,286,067	-	7,286,067
Total State General Fund	60,213,567	-	60,213,567
State Land Office Transfers	498,900	-	498,900
Total State Funds	93,697,960	94	93,698,054
Federal Funds	1,397,749	-	1,397,749
Total Revenues - GAAP	\$ 95,095,709	94	95,095,803

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
COMBINING BALANCE SHEET
GENERAL FUNDS
June 30, 2012

	Operating	Weight Distance	Drive MVD	Native American	Total
ASSETS					
Interest in the State Treasurer General Fund					
Investment Pool	\$ 24,103,398	3,703,460	9,116,056	218,085	37,140,999
Cash on hand	18,953	-			18,953
Receivables:					
Due from federal government	387,650	-	-	-	387,650
Loans to counties, net	-	-	-	-	-
Other receivables, net	1,746	-	-	-	1,746
Due from:					
Other funds	3,181,968	180,345	484,382	-	3,846,695
Other entities	1,615	-	-	-	1,615
Inventory of supplies	973,355	-	-	-	973,355
Prepaid expenses	9,872	-	-	-	9,872
Total assets	\$ 28,678,557	3,883,805	9,600,438	218,085	42,380,885
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 3,885,350	2,094	-	-	3,887,444
Accrued payroll	1,937,809	32,305	-	-	1,970,114
Due to external parties	-	-	-	560	560
Due to other state agencies	-	-	-	-	-
Due to State General Fund	2,552,668	-	-	-	2,552,668
Other Liabilities	44,472	(121)	-	-	44,351
Total liabilities	8,420,299	34,278	-	560	8,455,137
Fund Balances					
Nonspendable					
Cash on hand	18,953	-	-	-	18,953
Inventory of supplies	973,355	-	-	-	973,355
Prepaid expenses	9,872	-	-	-	9,872
Restricted	10,946,907	-	-	-	10,946,907
Committed	8,309,171	3,849,527	9,600,438	217,525	21,976,661
Total fund balances	20,258,258	3,849,527	9,600,438	217,525	33,925,748
Total liabilities and fund balances	\$ 28,678,557	3,883,805	9,600,438	218,085	42,380,885

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
GENERAL FUNDS
Year Ended June 30, 2012

	<u>Operating</u>	<u>Weight Distance</u>	<u>Drive MVD</u>	<u>Native American</u>	<u>Total</u>
Revenues					
Other state funds	\$ 26,661,790	3,549,415	2,760,371	-	32,971,576
Federal funds	1,397,749	-	-	-	1,397,749
Total revenues	28,059,539	3,549,415	2,760,371	-	34,369,325
Expenditures					
Current expenditures:					
Personal services and employee benefits	50,978,935	709,454	-	-	51,688,389
Contractual services	8,696,706	-	-	-	8,696,706
Other costs	15,073,401	75,349	-	65,502	15,214,252
Capital outlay	2,470,392	-	-	-	2,470,392
Total expenditures	77,219,434	784,803	-	65,502	78,069,739
Excess of revenues over expenditures	(49,159,895)	2,764,612	2,760,371	(65,502)	(43,700,414)
Other Financing Sources (Uses)					
State General Fund appropriations	60,213,567	-	-	-	60,213,567
Other Gifts and Grants	-	-	-	-	-
Fund Balance Sources	12,500	-	-	-	12,500
Fund Balance Transfers	-	-	(500,000)	(12,500)	(512,500)
Transfers from other state agencies	498,900	-	-	1,417	500,317
Transfers to other state agencies	-	(730,000)	-	(12,500)	(742,500)
Reversions to State General Fund - FY12	(2,549,863)	-	-	-	(2,549,863)
Net other financing sources (uses)	58,175,104	(730,000)	(500,000)	(23,583)	56,921,521
Net change in fund balance	9,015,209	2,034,612	2,260,371	(89,085)	13,221,107
Fund balance, June 30, 2011	11,243,047	1,814,918	7,340,066	306,610	20,704,641
Fund balance, June 30, 2012	\$ 20,258,256	3,849,530	9,600,437	217,525	33,925,748

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NON-MAJOR FUNDS
Year Ended June 30, 2012**

Special Revenue Funds. Special Revenue Funds account for revenue sources that are legally restricted to expenditures for specific purposes.

Property Valuation Fund (34800) – This fund provides loans to counties to be used to obtain technical assistance in the areas of property valuation, mapping and reappraisal. This fund was statutorily created by the Laws of 1978, Section 7, Article 38. This fund is not a budgeted fund.

Capital Project Funds. Capital Project Funds account for financial sources to be used for the acquisition of major capital items.

Capital Improvement Projects Fund (88500) – This fund was created to provide funding for various capital improvement projects.

TRIMS Capital Project Fund. This capital project fund accounts for the acquisition of capital assets or design and development of the Department's major computer processing systems. The TRIMS Fund was designated by the Department as a major fund for tracking purposes upon enactment of the initial appropriation and through the first fiscal years. There have been no further appropriations to the TRIMS Fund and it was not budgeted in the current year.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2012

	<u>Property</u>	<u>TRIMS</u>	<u>Capital</u>	<u>Total</u>
ASSETS				
Interest in the State Treasurer General Fund				
Investment Pool	\$ 378,831	-	-	378,831
Receivables:				
Due from other state agencies	78	-	-	78
Loans to counties, net	44,083	-	-	44,083
Total assets	\$ 422,992	-	-	422,992
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	-	-	-
Due to other state agencies	564	-	-	564
Total liabilities	564	-	-	564
Fund Balances				
Reserved for Native American Refunds	-	-	-	-
Reserved for loans to counties	422,428	-	-	422,428
Total fund balances	422,428	-	-	422,428
Total liabilities and fund balances	\$ 422,992	-	-	422,992

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	<u>Property</u>	<u>TRIMS</u>	<u>Capital</u>	<u>Total</u>
Revenues				
Miscellaneous revenue	\$ 94	-	-	94
Total revenues	94	-	-	94
Expenditures				
Current expenditures:				
Operating costs	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Excess of revenues over expenditures	94	-	-	94
Other Financing Sources				
Reversions	-	-	-	-
Transfers to other state agencies	-	-	-	-
Net other financing sources (uses)	-	-	-	-
Net change in fund balance	94	-	-	94
Fund balance, June 30, 2011	422,334	-	-	422,334
Fund balance, June 30, 2012	\$ 422,428	-	-	422,428

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
FIDUCIARY FUND TYPES
Year Ended June 30, 2012**

Fiduciary fund types are used to account for assets held by the government in a trustee capacity. Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments and/or other funds.

The Tax Administration Act was created by Chapter 7, Article 1, Sections 1 to 82, NMSA 1978, and applies to and governs the administration and enforcement of the following taxes, tax acts, surtaxes, advance payments, surcharges or fees administered by the Department:

- Income Tax Act
- Withholding Tax Act
- Gross Receipts and Compensating Tax Act
- Venture Capital Investment Act
- Liquor Excise Tax Act
- Local Liquor Excise Tax Act
- Any municipal local option gross receipts tax
- Any county local option gross receipts tax
- Special Fuels Supplier Tax Act
- Gasoline Tax Act
- Petroleum products loading fee, which fee shall be considered a tax for the purposes of the TAA
- Alternative Fuel Tax Act
- Cigarette Tax Act
- Estate Tax Act
- Railroad Car Company Tax Act
- Investment Credit Act
- Corporate Income and Franchise Tax Act
- Uniform Division of Income for Tax Purposes Act
- Multi-state Tax Compact
- Tobacco Products Tax Act
- Telecommunications relay service surcharge, which surcharge shall be considered a tax for the purposes of the TAA
- Resources Excise Tax Act
- Severance Tax Act
- Severance Surtax

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
FIDUCIARY FUND TYPES (CONTINUED)
Year Ended June 30, 2012**

- Oil and Gas Severance Tax Act
- Oil and Gas Conservation Tax Act
- Oil and Gas Emergency School Tax Act
- Oil and Gas Ad Valorem Production Tax Act
- Natural Gas Processors Tax Act
- Oil and Gas Production Equipment Ad Valorem Tax Act
- Copper Production Ad Valorem Tax Act
- Any advance payment required to be made by any act, which advance payment shall be considered a tax for the purposes of the TAA
- Enhanced Oil Recovery Act
- Natural Gas and Crude Oil Production Incentive Act
- Intergovernmental production tax credit and intergovernmental production equipment tax credit
- Weight Distance Tax Act
- Workers' compensation fee, which fee shall be considered a tax for purposes of the TAA
- Uniform Unclaimed Property Act
- 911 emergency surcharge and the network and database surcharge which surcharges shall be considered tax for purposes of the TAA
- Solid waste assessment fee, which fee shall be considered a tax for purposes of the TAA
- Water conservation fee, which fee shall be considered a tax for purposes of the TAA
- Gaming Control Act
- Interstate Telecommunication Gross Receipts Tax Act
- Capital Equipment Tax Credit Act
- Small Business Tax Credit Act
- Technology Jobs Tax Credit Act
- Leased Vehicle Gross Receipts Tax Act

Other tax acts administered by Taxation and Revenue Department that do not fall under the authority of the Tax Administration Act:

- Rural Job Tax Credit
- Motor Vehicle Excise Tax Act
- Film Production Tax Credit

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
FIDUCIARY FUND TYPES (CONTINUED)
Year Ended June 30, 2012**

The Department uses the following funds to account for the activities of various tax programs it administers:

Collections funds:

- CRS Suspense Funds (Funds 70700 and 83200) – used for the taxes reported through the combined reporting system (CRS), which reports gross receipts taxes, compensating taxes, withholding taxes and leased vehicle surcharges.
- Personal Income Tax Funds (Funds 23600, 64200, 81900 and 82900) – used for reporting personal income taxes.
- Corporate Income Tax (Fund 27900) – used for reporting corporate income taxes, franchise taxes, and past-through entity annual withholding taxes.
- TAA Suspense and Other Funds (Funds 68100, 68200, 68300, 68400, 70900, 82800, 83000 and 83100) – used for reporting gasoline taxes, special fuel taxes, alternative fuel taxes, petroleum products loading fees, water conservation fees, liquor taxes, cigarette taxes, tobacco products taxes, gaming taxes, fiduciary taxes, estate taxes, railroad car tax, worker's compensation fees, 911 emergency surcharges, telecommunications relay service surcharges and delinquent property taxes.
- Motor Vehicle Funds (Funds 82500 and 68000) – used for reporting motor vehicle excise taxes, vehicle registrations, boat registrations and taxes, special fuel taxes paid through IFTA, weight distance taxes, commercial vehicle permits, and motor vehicle / driver penalties.
- Oil and Gas Funds (Funds 23700, 23800, 23900, 71300, 71400, 71500 and 83300) – used for reporting taxes relating primarily to oil and gas, natural gas and other natural resources.

Non-Collection funds:

- Other Funds (Funds 70600, 71000 and 82700) – used for reporting cash, securities or bonds posted by special fuel suppliers and dealers, and property presumed to be abandoned and delivered to the custody of the state under the provisions of the Uniform Unclaimed Property Act. Fund 82700 is used for processing unidentified remittances until identification can be resolved.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND TYPE - AGENCY FUNDS
JUNE 30, 2012

ASSETS	Collection Funds						Non-Collection Other Funds	Eliminations	June 30, 2012 Totals
	CRS Suspende	Personal Income Tax Funds	Corporate Income Tax	TAA Suspende / Other	Motor Vehicle	Oil & Gas			
Interest in State General Fund Investment Pool	\$ 431,774,442	69,593,399	61,779,577	81,485,940	22,998,924	123,908,096	3,703,302	-	795,243,680
Cash on hand and in banks	-	-	-	6,535	2,499,539	-	-	-	2,506,074
Certificates of deposit held by State Treasurer	-	-	-	-	-	-	-	-	-
Unclaimed Property held for redemption	-	-	-	-	-	-	-	-	-
Receivables:									
Counties, municipalities and fee agents	368,152	-	-	-	-	-	-	-	368,152
Due from state general fund	60,052,193	29,410,006	49,882,907	1,027,486	1,597,284	31,918,775	-	-	173,888,651
Due from other state agencies	-	-	-	-	-	31,523,452	-	-	31,523,452
Due from external parties	-	-	-	-	-	-	-	-	-
Due from taxpayers	418,278,536	54,930,352	53,987,285	57,664,088	19,056,346	151,226,963	-	-	755,143,570
Due from other funds	-	-	66,989	10,202,794	518,152	28,480,829	-	(39,268,764)	-
Citations	-	-	-	-	26,183,585	-	-	-	26,183,585
Other - state dated warrants	48,947	-	-	65,441	10,873	-	-	-	145,156
Tax assessments	543,095,861	237,023,551	41,616,083	77,108,803	1,752,296	2,441,424	19,895	-	903,073,394
Allowance for uncollectibles	(543,095,861)	(237,023,551)	(41,616,083)	(77,108,803)	(27,935,882)	(2,441,424)	(35,376)	-	(929,256,980)
Total assets	910,522,270	153,933,757	165,716,758	150,452,284	46,681,117	367,038,115	3,723,197	(39,268,764)	1,758,818,734
LIABILITIES									
Unidentified tax collections	\$ 89,011,901	23,421,117	55,519,668	35,252,416	(173,845)	28,075,181	3,545,623	-	234,652,061
Due to state general fund	493,215,008	100,637,535	60,313,931	30,430,084	10,345,427	100,581,032	-	-	795,523,017
Due to counties and municipalities	246,875,397	-	-	11,106,804	2,627,944	26,803,106	-	-	287,413,251
Due to other state agencies	17,879,209	400,000	-	61,097,936	30,018,203	104,290,288	-	-	213,685,636
Due to other non-agency funds	1,046,855	917	-	613,108	2,198,215	-	-	-	3,859,095
Refunds due to taxpayers	60,052,193	29,402,985	49,882,907	2,806,087	1,597,284	76,788,958	122,000	-	220,652,414
Due to external parties	-	-	-	15,200	-	-	-	-	15,200
Due to other funds	2,001,878	66,989	-	8,702,068	17,000	28,480,829	-	(39,268,764)	-
Other liabilities - state dated warrants	439,829	4,214	252	428,581	50,889	1,044	55,574	-	980,383
Reserve for Litigated Assessments	-	-	-	-	-	2,037,677	-	-	2,037,677
Funds held in trust for others	-	-	-	-	-	-	-	-	-
Total liabilities	\$ 910,522,270	153,933,757	165,716,758	150,452,284	46,681,117	367,038,115	3,723,197	(39,268,764)	1,758,818,734

The accompanying notes are an integral part of this financial statement.

OTHER SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SUPPLEMENTAL SCHEDULE OF SPECIAL APPROPRIATIONS
Year Ended June 30, 2012

Special Appropriation	Amount Appropriated	Amount Received to Date	Expenditures to Date	Unencumbered Balance	Amount Reverted
General Fund:					
Special appropriation to Taxation & Revenue Department for Native American Settlement, Laws of 2009, Chapter 124, Section 5, Item 6, Non-reverting	\$ 1,000,000	1,000,000	943,390	56,610	-
Special appropriation to Taxation & Revenue Department for Native American Settlement, Laws of 2011, Chapter 179, Section 5, Non-reverting	250,000	250,000	-	160,915	-
Special appropriation to Taxation & Revenue Department for the MVD Driver System, Laws of 2008, Chapter 3, Section 7, Item 5, through FY12	4,120,000	4,120,000	3,887,248	232,752	232,752
Special appropriation to Taxation & Revenue Department to upgrade tax administration software, Laws of 2012, Chapter 19, Section 7, Item 4, through FY14	6,230,000	6,230,000	200,000	6,030,000	-
Special appropriation to Taxation & Revenue Department to modernize ONGARD system, Laws of 2012, Chapter 19, Section 7, Item 5 through FY14	6,000,000	1,056,067	20,750	1,035,317	-
Special appropriation to Taxation & Revenue Department for tax amnesty program, Laws of 2010 Special Session, Chapter 2, Section 2, Item 3 through FY12	500,000	500,027	450,688	49,339	49,339
Special appropriation to Taxation & Revenue Department to replace MVD System, Laws of 2009, Chapter 124, Section 5, Item 6. Re-authorized Laws of 2011, Chapter 179, Section 7, Item 2 through FY13	8,042,500	8,042,500	-	8,042,500	-
Special appropriation to Taxation & Revenue Department to replace MVD System, Laws of 2010, Special Session Chapter 6, Section 7, Item 3 through FY12	8,300,000	-	-	-	-
General Fund Total	34,442,500	21,198,594	5,502,076	15,607,433	282,091
Capital Improvement Projects fund:					
Special appropriation through FY12	-	-	-	-	-
Total Special Appropriations	\$ 34,442,500	21,198,594	5,502,076	15,607,433	282,091

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SUPPLEMENTAL SCHEDULE OF INTER-AGENCY TRANSFERS
Year Ended June 30, 2012

Account Transferred to:	Cash Account Transfer to:	Account Transferred from:	Reason for Transfer	Cash Account Transfer from:	Net Amount
Children Youth and Families Department:					
CYFD-Children's Trust Fund	78000-690	Transportation & MVD Suspense	1	82500-333	\$ 26,785
Department of Cultural Affairs:					
OCA Capital Projects/Laws of 1992	69100-505	CRS TAA Suspense Fund	1	83200-333	349,385
Department of Education:					
Substance Abuse Education	05700-924	Income Tax Suspense Fund	1	81900-333	11,082
Driving Safety Fees	57300-924	Transportation & MVD Suspense	1	82500-333	1,503,633
Department of Environment:					
Tire Recycling Fund	02600-667	Transportation & MVD Suspense	1	82500-333	938,387
Water Conservation Fund (WCF)	56700-667	TAA Suspense Fund	1	82800-333	2,631,499
Corrective Action Fund (PPL)	99000-667	TAA Suspense Fund	1	82800-333	18,455,088
Department of Finance and Administration:					
DFA Appropriations - Restitution	85300-341	TRD Restitution Fund	1	23600-333	323
DFA Appropriations - CIT	85300-341	CIT TAA Suspense Fund	1	27900-333	276,706,506
DFA Appropriations - PIT	85300-341	PIT TAA Suspense Fund	1	64200-333	412,755,655
DFA Appropriations - Unclaimed Property	85300-341	Unclaimed Property Susp Fund	1	71000-333	15,451,669
SBOF - State Debt	80000-341	Oil & Gas Ad Valorem Prod Fund	1	71300-333	7,860,732
SBOF - State Debt	80000-341	Copper Production Tax Fund	1	71400-333	160,003
SBOF - State Debt	80000-341	Ad Valorem Equipment Tax Fund	1	71500-333	1,348,514
Juvenile Adjudication Fund	10780-341	Transportation & MVD Suspense	1	82500-333	129,962
Judicial Education Fund	58900-341	Transportation & MVD Suspense	1	82500-333	411,885
DFA Appropriations - MVC	85300-341	Transportation & MVD Suspense	1	82500-333	120,071,026
Enhanced 911 Fund	01700-341	TAA Suspense Fund	1	82800-333	12,536,741
Cancer Research & Treatment Center	23300-341	TAA Suspense Fund	1	82800-333	762,804
Local DWI Grant Fund	56000-341	TAA Suspense Fund	1	82800-333	18,618,037
DFA Appropriations - TAA	85300-341	TAA Suspense Fund	1	82800-333	181,536,457
DFA Appropriations - WKC	85300-341	Workmens' Compensation Fund	1	83100-333	493,259
County-supported Medicaid Fund	02100-341	CRS TAA Suspense Fund	1	83200-333	18,979,001
Small Counties Assistance Fund	73700-341	CRS TAA Suspense Fund	1	83200-333	5,345,383
DFA Appropriations - CRS TAA	85300-341	CRS TAA Suspense Fund	1	83200-333	2,693,821,417
DFA Appropriations - Oil & Gas	85300-341	Oil & Gas Accounting Suspense	1	83300-333	478,853,302
Energy, Minerals & Natural Resources Department:					
EMNRD Parks & Recreation/Vietnam Memorial	20010-521	Income Tax Suspense Fund	1	81900-333	22,432
EMNRD Parks & Recreation	20010-521	Transportation & MVD Suspense	1	82500-333	505,488
EMNRD Forest Relief	32100-521	Income Tax Suspense Fund	1	81900-333	16,981
Boat Suspense Fund	77300-521	Transportation & MVD Suspense	1	82500-333	938,637
EMNRD - Parks & Recreation	20010-521	TAA Suspense Fund	1	82800-333	32,256
Motor Boat Fuel Tax Fund	30900-521	TAA Suspense Fund	1	82800-333	190,965
NM Youth Conservation Corps Fund	01400-522	CRS TAA Suspense Fund	1	83200-333	3,494,185
EMNRD Capital Projects/ 1994	64600-521	CRS TAA Suspense Fund	1	83200-333	4,891,191
OCD - Oil and Gas Reclamation	31100-521	Oil & Gas Accounting Suspense	1	83300-333	5,226,225
Department of Game & Fish:					
Game Protection Fund - Bass Habitat Program	19800-516	Transportation & MVD Suspense	1	82500-333	2,285
Game Protection Fund - Wildlife Program	30700-516	Transportation & MVD Suspense	1	82500-333	5,525
Department of Game and Fish Tax Intercept Fund	30700-717	Income Tax Suspense Fund	1	81900-333	31,740
Department of Health:					
DOH Breast Cancer Awareness	06100-665	Transportation & MVD Suspense	1	82500-333	12,725
Blood Donor Plate	06105-665	Transportation & MVD Suspense	1	82500-333	300
Children's Eyesight Fund	26104-665	Transportation & MVD Suspense	1	82500-333	36,210
Brain Injury Services Fund	76800-624	Transportation & MVD Suspense	1	82500-333	708,085
Child Support Enforcement Fund	97800-630	Income Tax Suspense Fund	1	81900-333	2,531,639
Department of Tourism:					
National Scenic By-Ways Program	03000-418	Transportation & MVD Suspense	1	82500-333	4,650
Litter Control & Beautification Fund	26200-418	Transportation & MVD Suspense	1	82500-333	1,588,488
General Services Department:					
Handicapped Phone Access Fund	56500-350	TAA Suspense Fund	1	82800-333	3,255,852
Department of Public Safety:					
Federal Bureau of Investigations	12805-790	Hazmat Finger Printing Fee Fund	1	68000-333	12,395

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SUPPLEMENTAL SCHEDULE OF INTER-AGENCY TRANSFERS
Year Ended June 30, 2012

Account Transferred to:	Cash Account Transfer to:	Account Transferred from:	Reason for Transfer	Cash Account Transfer from:	Net Amount
Department of Transportation:					
State Road Fund Appropriations	20100-805	Transportation & MVD Suspense	1	82500-333	168,921,130
Recycling & Illegal Dumping Fund	20200-805	Transportation & MVD Suspense	1	82500-333	1,839,911
Local Government Road Fund	20300-805	Transportation & MVD Suspense	1	82500-333	982,134
Motorcycle Training Fund	20600-805	Transportation & MVD Suspense	1	82500-333	136,962
DOT DWI Prevention & Education Program	20700-805	Transportation & MVD Suspense	1	82500-333	535,651
Traffic Safety Education & Enforcement Fund	20800-805	Transportation & MVD Suspense	1	82500-333	425,466
Interlock Device Fund	82600-805	Transportation & MVD Suspense	1	82500-333	1,104,500
State Road Fund Appropriations	20100-805	TAA Suspense Fund	1	82800-333	200,050,961
Local Government Road Fund	20300-805	TAA Suspense Fund	1	82800-333	18,507,376
State Aviation Fund	20500-805	TAA Suspense Fund	1	82800-333	380,557
Highway Infrastructure Fund	20200-805	CRS TAA Suspense Fund	1	83200-333	5,626,225
Local Government Road Fund	20300-805	CRS TAA Suspense Fund	1	83200-333	1,875,408
State Aviation Fund	20500-805	CRS TAA Suspense Fund	1	83200-333	6,456,472
Military Affairs Department					
Veterans Service/Armed Forces	10580-705	Income Tax Suspense Fund	1	81900-333	16,162
New Mexico Administrative Office of the Courts:					
Admin Office of the Courts	53300-218	Income Tax Suspense Fund	1	81900-333	154,916
Jury & Witness Fee Fund	01200-218	Transportation & MVD Suspense	1	82500-333	649,810
Court Automation Fund	07800-218	Transportation & MVD Suspense	1	82500-333	1,425,188
Magistrate Court Operations Fund	11120-218	Transportation & MVD Suspense	1	82500-333	499,556
Court Facilities Fund	53200-218	Transportation & MVD Suspense	1	82500-333	1,578,312
Local Government Corrections Fund	68800-218	Transportation & MVD Suspense	1	82500-333	2,453,880
New Mexico Retiree Health:					
NM Retiree Health Care Fund	38100-343	CRS TAA Suspense Fund	1	83200-333	19,537,318
Public Employees Retirement Association:					
PERA - Administration	60600-366	PIT TAA Suspense Fund	1	64200-333	2,400,000
Public Regulation Commission					
Firefighters Survivor Fund	56400-430	Transportation & MVD Suspense	1	82500-333	6,870
Regulation and Licensing Department					
Animal Shelter Fund	20120-420	Transportation & MVD Suspense	1	82500-333	8,375
State Land Office:					
ONGARD/ Oil & Gas Royalty	26400-539	Oil & Gas Accounting Suspense	1	83300-333	2,744,975
Secretary of the State:					
Public Election Fund	81200-370	Unclaimed Property Susp Fund	1	71000-333	1,200,000
Office of the State Treasurer:					
Severance Bonding Fund	41000-394	Oil & Gas Accounting Suspense	1	83300-333	462,831,266
Department of Veterans' Services:					
Veterans National Cemetery	12300-670	Income Tax Suspense Fund	1	81900-333	13,321
New Mexico VSC/ Armed Forces	78400-670	Transportation & MVD Suspense	1	82500-333	69,891
Workers Compensation Administration:					
Workers' Compensation Administration Fund	98200-632	Workers' Compensation Suspense	1	83100-333	11,269,904
					<u>\$ 5,206,969,288</u>

Transfer Purpose

1 Transfer beneficiary's funds from fiduciary fund as provided by New Mexico Statutes.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2012

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2012</u>
<u>ASSETS</u>				
Interest in State Treasurer General Fund Investment Pool	\$ 620,563,245	7,666,789,392	7,492,108,957	795,243,680
Cash on hand and in banks	2,839,647	2,506,074	2,839,647	2,506,074
Certificates of deposit held by State Treasurer	-	-	-	-
Receivables:				
Counties, municipalities and fee agents	-	368,152	-	368,152
Due from State General Fund	141,752,659	77,718,139	45,582,147	173,888,651
Due from other state agencies	31,755,658	31,523,452	31,755,658	31,523,452
Due from taxpayers	787,630,521	740,881,634	773,368,585	755,143,570
Other receivables - state dated warrants	3,672,725	145,156	3,672,725	145,156
Citations	27,503,017	26,183,585	27,503,017	26,183,585
Tax assessments:	882,458,828	1,398,298,794	1,377,684,228	903,073,394
Amount considered uncollectible	(909,961,845)	5,532,069	24,827,204	(929,256,980)
Total assets	\$ 1,588,214,455	9,949,946,447	9,779,342,168	1,758,818,734
<u>LIABILITIES</u>				
Unidentified tax collections	\$ 102,015,115	7,901,441,453	7,768,804,507	234,652,061
Due to State General Fund	771,873,384	860,716,437	837,066,804	795,523,017
Due to counties and municipalities	292,236,307	287,507,681	292,330,737	287,413,251
Due to other state agencies	226,727,338	213,848,571	226,890,273	213,685,636
Due to other funds	2,493,293	54,590,899	53,225,097	3,859,095
Refunds due to taxpayers	190,279,290	51,815,415	21,442,291	220,652,414
Due to external parties	4,575	4,479,840	4,490,465	15,200
Other liabilities - state dated warrants	547,476	1,388,849	955,942	980,383
Reserve for Litigated Assessments	2,037,677	-	-	2,037,677
Total liabilities	\$ 1,588,214,455	9,375,789,145	9,205,206,116	1,758,818,734

The accompanying notes are an integral part of this financial statement.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SUPPLEMENTAL SCHEDULE OF CASH ACCOUNTS
Year Ended June 30, 2012

Interest in the State Treasurer General Fund Investment Pool

Account Name	Fund Type	DFA SHARE Acct No.	Bank Balance per State Treasurer	Adjustments Not in SHARE	Balance per Financial Statements
Governmental Funds:					
TRIMS Expenditure Fund	Capital	08600 - 333	\$ -	-	-
TRD - Operating Fund	Gov't'l	17200 - 333	24,103,398	-	24,103,398
Property Valuation Fund	S R	34800 - 333	378,831	-	378,831
Native American Fund	S R	10690 - 333	218,085	-	218,085
Capital Improvement Project	Capital	88500 - 333	-	-	-
Drive MVD	Gov't'l	79800 - 333	9,116,056	-	9,116,056
Weight Distance Tax Admin Fee	Gov't'l	99400 - 333	3,703,460	-	3,703,460
Total governmental funds			37,519,830	-	37,519,830
Fiduciary Funds:					
TRD Restitution Fund	Fiduciary	23600 - 333	-	-	-
Oil and Gas - Ad Valorem Equip. Tax	Fiduciary	23900 - 333	-	-	-
CIT (TAA) Suspense	Fiduciary	27900 - 333	61,779,577	-	61,779,577
PIT (TAA) Suspense	Fiduciary	64200 - 333	65,813,060	(86)	65,812,974
Hazmat Finger Printing Fees	Fiduciary	68000 - 333	9,958	-	9,958
County and Municipal Gasoline	Fiduciary	68100 - 333	387,142	-	387,142
Small Cities Assistance	Fiduciary	68400 - 333	3,494,209	-	3,494,209
County and Municipal Cigarette	Fiduciary	68300 - 333	413	-	413
Local Liquor Tax Fund	Fiduciary	70900 - 333	-	-	-
Motor Transportation Cash Bond	Fiduciary	70600 - 333	122,000	-	122,000
Unclaimed Property Suspense	Fiduciary	71000 - 333	3,572,641	-	3,572,641
Oil and Gas - Ad Valorem Prod. Tax	Fiduciary	71300 - 333	671,156	-	671,156
Ad Valorem Equipment Tax	Fiduciary	71500 - 333	1,383	-	1,383
Income Tax Suspense	Fiduciary	81900 - 333	3,780,424	-	3,780,424
Transportation & MVD Suspense	Fiduciary	82500 - 333	22,987,945	1,021	22,988,966
Unidentified Remittance Account	Fiduciary	82700 - 333	8,661	-	8,661
T.A.A Suspense	Fiduciary	82800 - 333	74,073,389	-	74,073,389
Delinquency List Suspense	Fiduciary	83000 - 333	2,753,227	138,585	2,891,812
Worker's Compensation Fund	Fiduciary	83100 - 333	638,976	-	638,976
CRS TAA Suspense - TRIMS	Fiduciary	83200 - 333	431,774,442	-	431,774,442
Oil & Gas Accounting Suspense	Fiduciary	83300 - 333	123,235,557	-	123,235,557
Total fiduciary funds			795,104,160	139,520	795,243,680
Total interest in the State Treasurer Investment Pool			\$ 832,623,990	139,520	832,763,510

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SUPPLEMENTAL SCHEDULE OF CASH ACCOUNTS (CONTINUED)
JUNE 30, 2012

Cash in Banks

As of June 30, 2012, reconciled motor vehicle field office cash in banks (checking accounts) totaled \$194,246 as follows:

Name of Depository	Account Name	Balance per Financial Statements	Bank Balance
First Community Bank (Las Vegas)	NM Taxation & Revenue Department	\$ 14,924	14,924
AmBank	NM Taxation & Revenue Department	7,611	7,611
Southwest Capital Bank	NM Taxation & Revenue Department	9,582	9,582
Citizen's Bank of Clovis	NM Taxation & Revenue Department	14,982	14,047
Farmers & Stockmens Bank (Clayton)	NM Taxation & Revenue Department	11,194	11,194
Farmers & Stockmens Bank (Clayton)	NM Taxation & Revenue Department	102	102
First National Bank of New Mexico	NM Taxation & Revenue Department	22,015	22,015
First National Bank (Alamogordo)	MVD Cloudcroft-15N	9,406	9,406
First State Bank (Socorro)	Taxation & Revenue Department	7,614	7,614
My Bank (Belen)	NM Taxation & Revenue Department	6,463	6,463
People's Bank	NM Taxation & Revenue Department	11,386	11,386
People's Bank	NM Taxation & Revenue Department	10,452	10,452
Western Bank (Lordsburg)	NM Taxation & Revenue Department	21,244	21,244
Western Bank (Lordsburg)	Motor Transportation Department	11,225	11,225
Western Commerce Bank (Carlsbad)	Tatum MVD	1,845	1,845
Western Commerce Bank (Carlsbad)	NM Taxation & Revenue Department - MVD	34,201	34,201
Total cash per financial statements		194,246	193,311
Deposits in transit from agents		2,311,828	2,311,828
Outstanding checks and adjustments		-	935
Total cash in banks		\$ 2,506,074	2,506,074

Detail of pledged collateral specific to this agency is unavailable because the bank commingles pledged collateral from all state funds it holds. However, the State Treasurer's Office Collateral Bureau monitors pledged collateral for all state funds held by state agencies in such "authorized" bank accounts.

SINGLE AUDIT

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Pass-Through Identifying Number	Federal Participating Expenditures
U.S. Department of Interior			
Audits of Oil and Gas Leases	15.427		\$ 1,087,485
Total U.S. Department of Interior			<u>1,087,485</u>
U.S. Department of Transportation			
CDL Project and Administration	20.232		91,869
CDL Information System Modernization	20.238		<u>218,395</u>
Total USDOT Direct Programs			<u>310,264</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,397,749</u></u>

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012**

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Taxation and Revenue Department under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, changes in net assets or cash flow on the Department.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting which is described in Note 2 to the Department's governmental fund financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3. NON-CASH ASSISTANCE

The Department did not receive any Federal non-cash assistance in fiscal year 2012.

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

Demesia Padilla, CPA, Cabinet Secretary
Honorable Susana Martinez, Governor
Hector H. Balderas, New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information and the budget comparison of the general fund, the combining and individual funds presented as supplemental information of the State of New Mexico Taxation and Revenue Department (Department) as of and for the year ended June 30, 2012 and have issued our report thereon dated December 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Department's internal control over financing reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Demesia Padilla, CPA, Cabinet Secretary
Honorable Susana Martinez, Governor
Hector H. Balderas, New Mexico State Auditor
Santa Fe, New Mexico

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items 09-01 and 09-02. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Department's responses and, accordingly, we express no opinion on them.

Demesia Padilla, CPA, Cabinet Secretary
Honorable Susana Martinez, Governor
Hector H. Balderas, New Mexico State Auditor
Santa Fe, New Mexico

This report is intended solely for the information and use of management and others within the entity, the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

Mass Adams LLP

Albuquerque, New Mexico
December 12, 2012

**Report of Independent Auditors 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***

Demesia Padilla, CPA, Cabinet Secretary
Honorable Susana Martinez, Governor
Hector H. Balderas, New Mexico State Auditor
Santa Fe, New Mexico

Compliance

We have audited the State of New Mexico Taxation and Revenue Department's (Department) 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 its major federal programs for the year ended June 30, 2012. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Department's management. Our responsibility is to express an opinion on Department's compliance based on our audit.

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 Department'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. Our audit does not provide a legal determination of Department's compliance with those requirements.

Demesia Padilla, CPA, Cabinet Secretary
Honorable Susana Martinez, Governor
Hector H. Balderas, New Mexico State Auditor
Santa Fe, New Mexico

In our opinion, the Department complied, in all material respects, with the requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and Department's grants applicable to federal programs. In planning and performing our audit, we considered Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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.

Demesia Padilla, CPA, Cabinet Secretary
Honorable Susana Martinez, Governor
Hector H. Balderas, New Mexico State Auditor
Santa Fe, New Mexico

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report is solely to 1) describe the scope of our testing of internal control over compliance and the results of that testing; and 2) express an opinion on compliance based on our audit. This report is an integral part of an audit performed in accordance with OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Mess Adams LLP

Albuquerque, New Mexico
December 12, 2012

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2012**

08-02	Information Technology – Customized Software and Change Management	Resolved
09-01	Information Technology – User Account and Identity Management	Repeated
09-02	Internal Control Monitoring for Tax Systems	Repeated
11-01	Payroll Certifications	Resolved

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(s) identified that are not considered to be material weakness(es)? X Yes _____ None reported

Non-compliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(s) identified that are not considered to be material weakness(es) _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ Yes X No

Identification of Major Program

CFDA Number	Name of Federal Program or Cluster
15.427	Mineral Management Services, Audits of Oil and Gas Leases

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2012**

B. FINDINGS - FINANCIAL STATEMENT AUDIT

09-01 Information Technology – User Account and Identity Management

CONDITION

There is no periodic audit of user access privileges performed to ensure user access to MVD/MVD2 is current and appropriate based on individual job responsibilities. In addition, there is no periodic audit of Active Directory Accounts to ensure user access is current and appropriate based on individual job responsibilities.

CRITERIA

Best practices, as stated in the Control Objectives for Information and related Technology (COBIT) created by the Information Systems Audit and Control Association, specify that Organization's address requesting, establishing, issuing, suspending, modifying and closing user accounts, and related user privileges with a set of user account management procedures should include an approval procedure outlining the data or system owner granting the access privileges. Management should perform regular reviews of all accounts and related privileges to ensure that access is in line with defined and documented business needs. (COBIT DS5.3 & DS5.4)

EFFECT

The lack of standardized procedures for removing system access for terminated employees and periodic Active Directory audits may allow unauthorized users to access sensitive or mission critical data. Also, it is possible that an employee could have too much access to certain sensitive areas if their job duties or roles change.

CAUSE

The Department does not have a formalized procedure in place to perform periodic audit of user access privilege.

RECOMMENDATION

We recommend the Department establish a formal procedure to perform periodic audit of user access privileges to MVD/MVD2. It is important that these reviews are performed on a scheduled basis, at a minimum annually, to ensure terminated employees' access has been removed or disabled. The reviews should also ensure that access privileges to these

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2012**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

**09-01 Information Technology – User Account and Identity Management
(Continued)**

RECOMMENDATION (CONTINUED)

financial systems continue to be in alignment with individual user job responsibilities. In addition, we recommend the Department establish a formal process to schedule audits of Active Directory group memberships. Regularly scheduled audits of Active Directory group memberships are a way to guard against employees having unnecessary accesses. Audits should be initiated from IT and performed by those who have the greatest understanding of employee roles. A collaborative effort between IT and the business units will produce the most accurate and timely information.

MANAGEMENT RESPONSE

Network Permissions – ITD has created a script that will query and report all permissions granted to all file shares on servers within our domain. Two challenges remain:

1. It has been common practice to assign individual users rights to shares, rather than creating a group and adding users to the group. Using groups rather than assigning individual rights is a best practice, and far easier, to administrate and audit.
2. The current report is 292 pages of shares and permissions. It is going to take a coordinated effort to identify owners of the data, and sift through the permission that should be granted.

Once ITD identifies an owner of the share, ITD will create groups, assign permissions, associate users, and modify his script in such a way that will permit automation of the process of reporting individuals that have access and send the report to the individual that has been designated as the owner. The owner will then review the current permissions, and request any necessary changes. This will be implemented in the third quarter of FY13.

MVD 2.0 – There's no process currently in place for conducting regular audits of user privileges in MVD 2.0. MVD managers and bureau chiefs are in charge of creating the ids, granting access to those ids and cancelling ids by use of the TRD Access Authorization Form/Security 01form. The MVD managers know when an employee is hired, promoted or leaves, so the process of auditing the user privileges is best left with them. ITD will work with MVD to implement a process to conduct quarterly reviews. This will be implemented in the third quarter of FY13.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2012**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

09-02 Internal Control Monitoring for Tax Systems

CONDITION

The Department has a number of control activities to ensure the tax systems it operates produce accurate and reliable information. There are only limited monitoring activities to ensure that these controls operate as intended.

CRITERIA

A sound system of internal controls require the periodic monitoring of control activities to ensure that the controls are operating effectively. This includes a coordinated, risk based, overall monitoring to ensure that controls and control systems that have been put in place continue to operate effectively.

EFFECT

The lack of periodic internal review could result in incorrect distributions to beneficiaries or other errors in the tax system processing. Since the process is automated, errors could be repeated and compounded.

CAUSE

The Department does not have a formalized process in place to review its system of internal controls over the receipts and distributions made by the tax systems and the allocation of the distributions to the beneficiaries.

RECOMMENDATION

We recommend that the Department develop formal policies and procedures for periodic monitoring of the internal control activities over the tax systems' receipts and distributions to beneficiaries and the related allocations. This should include a coordinated, risk based approach to monitoring the operating effectiveness of key controls and processes. It should also include transactional testing. Such monitoring might take the form of an internal audit function.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2012**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

09-02 Internal Control Monitoring for Tax Systems (Continued)

MANAGEMENT RESPONSE

The Department acknowledges and concurs with this finding. The Department and the Internal Audit area continue to work to within severely constrained resources. The Department is in the process of upgrading its computerized tax system and will establish a process and periodic monitoring of the tax systems of distributions to the recipients of those distributions and the related allocations, assure rates are current and correct, and access is controlled.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2012**

C. FINDINGS – FEDERAL AWARD AUDIT

None

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
EXIT CONFERENCE
Year Ended June 30, 2012**

An exit conference was held with the State of New Mexico Taxation and Revenue Department (Department) on December 5, 2012. The conference was held at the Joseph M. Montoya Building in Santa Fe, New Mexico. In attendance were:

FOR THE DEPARTMENT:

Demesia Padilla, Cabinet Secretary
Dorothy Lynch, Administrative Services Division Deputy Director
David L. Robbins, Administrative Services Division Director, CFO
John Monforte, Deputy Secretary
Diane Rossback, Financial Distributions Bureau Chief

FOR MOSS ADAMS LLP:

Larry Carmony, Partner
Scott Eliason, Partner
Heather Lucero, Senior

