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STATE OF NEW MEXICO

PUBLIC DEFENDER DEPARTMENT

Financial Statements
Year Ended June 30, 2013

(With Independent Auditors' Report Thereon)

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Financial Statements
Year Ended June 30, 2013**

(With Independent Auditors' Report Thereon)

INTRODUCTORY SECTION

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

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June 30, 2013**

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**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

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**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Official Roster
at June 30, 2013**

| Name | Title |
|-----------------------|--|
| Bennett J. Baur | Acting Chief Public Defender |
| Barry Porter | Acting Deputy Chief Public Defender |
| Sarah Peterson | Acting Chief Financial Officer/Director of Fiscal Services |
| Barbara Auten | Human Resource Director |
| Vacant | District Public Defender – 1 st Judicial District |
| Susan Burgess-Farrell | District Public Defender – 2 nd Judicial District |
| Mary McMahan | District Public Defender – 3 rd Judicial District |
| Vacant | District Public Defender – 5 th Judicial District |
| Chandler Blair | Acting District Public Defender – 9 th Judicial District |
| Matthew Cockman | District Public Defender – 11 th Judicial District Office |
| Vacant | District Public Defender – 12 th Judicial District Office |
| Sergio J. Viscoli | Acting Appellate Defender |

FINANCIAL SECTION



Macias, Gutierrez
& Co., P.C.

*Certified Public Accountants
Member AICPA, NMSCPA*

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INDEPENDENT AUDITORS' REPORT

Ben Baur, Acting Chief Public Defender
Public Defender Department
and
Honorable Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information and the respective budgetary comparisons for the General Fund and the Major Special Revenue Fund of the Public Defender Department (Department) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

We were unable to obtain sufficient evidential matter to satisfy ourselves that accounts receivable, recorded in the agency fund, are complete. The understatement appears to have been caused by errors in recording accounts receivable in current and prior years. The amount of the possible understatement is not subject to estimation and correction of the error would not be cost beneficial.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to ascertain the completeness of accounts receivable in the agency fund, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2013, and the respective changes in financial position thereof and the respective budgetary comparisons for the General Fund and the Major Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Public Defender Department are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities, each major fund, the aggregate remaining information and the respective budgetary comparisons for the General Fund and the Major Special Revenue Fund that are attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2013, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2013 on our consideration of the Department's internal control 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* in considering the Department's internal control over financial reporting and compliance.

Macias, Gutierrez & Co., CPAs, P.C.

Macias, Gutierrez & Co., CPAs, P.C.
Espanola, New Mexico
November 6, 2013

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

The following is a discussion and analysis of the department's financial performance, providing an overview of the activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the department's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the department:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the department's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the department, reporting the department's operations in more detail than the government-wide statements. The governmental funds statements tell how general government services (the primary functions of the department) were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-Wide Statements

The government-wide statements report information about the department as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the department's net position and how it has changed. Net position – the difference between the department's assets and liabilities – is one way to measure the department's financial health or position.

- Over time, increases or decreases in the department's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the department, the reader is encouraged to consider additional non-financial factors such as changes in the department's grant funding or the addition of new programs.

All of the department's basic services are included in government-wide financial statements, such as district office operations and contract counsel legal services. State appropriations, other reimbursements and fees finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the department's most significant funds –not the department as a whole. Funds are accounting devices that the department uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

- The State Legislature established other funds to control and manage money for particular purposes or to show that it is properly using certain grants.

The department has two types of funds:

- Governmental funds –Most of the department's basic services are included in governmental funds which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the department's programs.

The department has two governmental funds. The first is used to account for the department's general operations and is a reverting fund. The second is a statutorily created fund used to account for proceeds from the indigent representation application fee (a \$10 fee). The use of those fees is legally restricted for the department's automation needs.

- Fiduciary funds—The department is the trustee, or fiduciary, for certain moneys, it is responsible for those assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The department is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the department's fiduciary activities are reported in a separate statement of fiduciary net positions and a statement of changes in fiduciary net positions. We exclude these activities from the department's government-wide financial statements because the department cannot use these assets to finance its operations. The department has one fiduciary fund used to account for activities in which the department is acting in agent capacity for the state general fund. Funds are received from clients who are determined by the department not to be indigent. All amounts charged to clients and all amounts collected from these clients are payable to the state general fund.

FINANCIAL ANALYSIS

The department's net position decreased \$353,513 over the course of this fiscal year's operations. The following financial information is a comparison of net position for 2013 and 2012.

| | 2013 | 2012 | Variance |
|---|---------------------|---------------------|---------------------|
| Current and other noncurrent assets | 2,865,449.00 | 4,450,964.00 | (1,585,515.00) |
| Capital assets, net | 143,965.00 | 38,877.00 | 105,088.00 |
| Total assets | 3,009,414.00 | 4,489,841.00 | (1,480,427.00) |
| Long-term liabilities | 19,723.00 | 47,535.00 | (27,812.00) |
| Other liabilities | 3,558,460.00 | 4,657,562.00 | (1,099,102.00) |
| Total liabilities | 3,578,183.00 | 4,705,097.00 | (1,126,914.00) |
| Net position: | | | |
| Net investment in capital assets, net of related debt | 143,965.00 | 38,877.00 | 105,088.00 |
| Restricted | 258,433.00 | 784,830.00 | (526,397.00) |
| Unrestricted | (971,167.00) | (1,038,963.00) | 67,796.00 |
| Total net position | (568,769.00) | (215,256.00) | (353,513.00) |

The total assets consist of cash, net receivables, prepaid expenses, and capital assets (net of accumulated depreciation). Total liabilities consist of accounts payable, accrued salaries and employee benefits payable, amounts due to the state's general fund and other agencies, and compensated absences payable.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

Net position is comprised of net investment in capital assets, restricted and unrestricted amounts. The restricted amount of \$258,433 represents the amount restricted for the purchase and maintenance of automation systems.

The variances consist of:

- Total assets – The \$1,480,427 variance decrease in total assets is largely attributable to a decrease in cash (investment in state general fund investment pool) at June 30, 2013 from payment of accounts payable.
- Total liabilities – Most of the variance is attributable to the \$619,380 decrease in accounts payable. The remaining variance of \$507,534 is largely due to the decreases in due to state general fund, various payroll related liabilities, other liabilities and compensated absences of \$524,899 and an increase in accrued salaries and other liabilities of \$17,365.
- Total net position – The net position for the department decreased from 2012 by \$353,513.

The following financial information is a comparison of the Statement of Activities for 2013 and 2012:

| | 2013 | 2012 | Variance |
|-------------------------------------|------------------|------------------|------------------|
| Revenues: | | | |
| Program revenues: | | | |
| Charges for services | \$268,722 | \$254,565 | \$14,157 |
| Operating state grants | 196,912 | 173,540 | 23,372 |
| Operating federal grants | 0 | 56,243 | (56,243) |
| General revenues | 39,502,248 | 38,167,014 | 1,335,234 |
| Total revenues | 39,967,882 | 38,651,362 | 1,316,520 |
| | | | 0 |
| Expenses: | | | 0 |
| General government: | 40,320,613 | 38,418,558 | 1,902,055 |
| Loss on capital asset disposition | 0 | 0 | 0 |
| Increase (decrease) in net position | (352,731) | 232,804 | (585,535) |
| Net position, beginning | (216,038) | (448,060) | 232,022 |
| Net position, ending | <u>(568,769)</u> | <u>(215,256)</u> | <u>(353,513)</u> |

Note: The \$782 difference between 2012 ending net position and 2013 beginning net position is attributable to prior period adjustments and discussed in Note 13.

Total Revenues \$39,967,882: Revenue received is comprised mostly by appropriations from the state's general fund, but also includes inter-agency transfers and applications fees. In fiscal year 2013 the department collected \$14,157 more in application fees. This explains the variance in the Charges for Services category above. The increase in general revenues is attributable to increased funding in the appropriation process.

Total Expenses \$40,320,613: Expenses consists of employee salaries and benefits, contractual services, operational costs and reversions. The escalation in expenditures is attributable to increased appropriations in general fund (mentioned above) and the use of special revenue automation fund balance.

Change in Net position \$353,513: The department's total revenue increased from \$38,651,362 to \$39,967,882. The department's total expenses increased from \$38,418,558 to \$40,320,613.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

ANALYSIS OF THE DEPARTMENT'S OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

As of the close of the fiscal year, the department reported an ending fund balance of \$242,289, most of the fund balance is non-spendable and/or restricted for specific purposes, such as petty cash, prepaid postage, and for the purchase and maintenance of automation systems. The negative fund balance, which is identified as unassigned is relative to expenditures that the department paid out of a subsequent year's budget. This issue is discussed in Note 9.

The general fund is the chief operating fund for the department. At the end of the current fiscal year, the non-spendable fund balance of the general fund was \$29,654 and the unassigned fund amount was (\$45,798) which comprised the total negative fund balance of (\$16,144). The fund balance of the department's general fund increased by \$21,984 during the current fiscal year.

The special revenue fund titled the Automation Fund has a total fund balance of \$258,433, all of which is restricted for the purchase and maintenance of automation systems. The net decrease in fund balance during the current year in this special revenue fund was \$526,397.

Total fund balance decreased by \$504,413, indicating that the department's expenditures exceeded revenue generated through the year. This was made possible due to the department budgeting special revenue fund balance (savings) from previous years.

General Fund Budgetary Highlights

The State Legislature makes annual appropriations to the department. Adjustments to the budget require approval by the State Budget Division of the Department of Finance and Administration.

Over the course of the year, the department revised its budget. These budget adjustments are captured in four categories.

- Adjustments for supplemental or special appropriations to either budget new or continuing supplemental or special appropriations, or to adjust the estimated amount to reflect the actual appropriation amount.
- Increases to the budget to reflect funding that was not secured at the time the operating budget was prepared. This includes funding from various courts in exchange for the department's service to their drug court programs.
- Changes made between categories to ensure that the budget reflects the most accurate budget allocation, based on expenditure projections.
- Increases to the budget from fund balance to prevent budget overruns.

With these adjustments, actual general fund expenditures were \$671,224 below final budget amounts and reflect the department's obligation to revert savings realized by our commitment to curb expenses and revert additional funds to the general fund. The final approved budget was \$40,370,383 and the total expenditures were \$39,699,159.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2013, the department had a net investment of \$143,965 in capital assets, including machinery, equipment, furniture and fixtures. This amount represents a net increase (including additions and deductions) of \$105,088 over last fiscal year.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

Long- term debt

At the end of the fiscal year, the department had \$955,023 in compensated absences payable, a decrease of 4.58% under last fiscal year. The decrease is attributable to the department keeping a high vacancy rate throughout the year. More information about the department's debt is presented in note 8 of this report.

NEXT YEARS' BUDGETS

The total approved recurring general fund operating budget for fiscal year 2014 is \$42,024,600, which is a slight increase of 4.68% compared to fiscal year 2013's approved recurring general operating budget.

The department submitted a 6.7% general fund increase in the fiscal year 2015 budget request. If approved, the additional funding will be directed towards an aggressive hiring plan and effort to fill authorized positions and reduce the public defender caseloads.

CONTACTING THE DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 the department's Chief Financial Officer.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

Exhibit A

**Statement of Net Position
June 30, 2013**

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>Assets</u> | |
| Current assets: | |
| Interest in State General Fund Investment Pool (note 3) | \$ 2,815,898 |
| Cash in authorized bank account | 565 |
| Petty cash | 1,300 |
| Accounts receivable, net | - |
| Due from employees, net (note 4) | 7,107 |
| Due from local governments (note 4) | 10,925 |
| Prepaid expenses | 29,654 |
| | <hr/> |
| Total current assets | 2,865,449 |
| Noncurrent assets: | |
| Capital assets, net of depreciation (note 5) | 143,965 |
| | <hr/> |
| Total assets | 3,009,414 |
| | <hr/> |
| <u>Liabilities</u> | |
| Current liabilities: | |
| Accounts payable | 1,506,526 |
| Accrued salaries payable | 215,932 |
| Payroll taxes payable | 82,960 |
| Payroll benefits payable | 168,837 |
| Other payroll liabilities | 5,236 |
| Due to other funds | 50 |
| Due to state general fund (note 6) | 643,619 |
| Compensated absences payable (note 8) | 935,300 |
| Long-term liabilities: | |
| Compensated absences payable (note 8) | 19,723 |
| | <hr/> |
| Total liabilities | 3,578,183 |
| | <hr/> |
| <u>Net Position</u> | |
| Net investment in capital assets | 143,965 |
| Restricted for automation systems | 258,433 |
| Unrestricted | (971,167) |
| | <hr/> |
| Total net position | \$ (568,769) |
| | <hr/> <hr/> |

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

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

Exhibit B

**Statement of Activities
Year Ended June 30, 2013**

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Expenses: | |
| General government: | |
| Current: | |
| Personal services and employee benefits | \$ 23,645,722 |
| Contractual services | 11,013,152 |
| Other | 5,638,732 |
| Depreciation expense | <u>23,007</u> |
| Total expenses | <u>40,320,613</u> |
| Program revenues: | |
| Charges for services | 268,722 |
| Operating federal grants | - |
| Operating state grants | <u>196,912</u> |
| Total program revenues | <u>465,634</u> |
| Net program expense | <u>39,854,979</u> |
| General revenues: | |
| General Fund appropriation, net of current-year reversion (\$643,052) | 39,502,248 |
| Transfers-in from other state agencies | - |
| Interest | <u>-</u> |
| Total general revenues | <u>39,502,248</u> |
| Special item - loss on capital asset disposition | <u>-</u> |
| Change in net position | <u>(352,731)</u> |
| Net position, beginning, as originally reported | (215,256) |
| Prior period adjustments (note 13) | <u>(782)</u> |
| Net position, beginning, as restated | <u>(216,038)</u> |
| Net position, ending | <u>\$ (568,769)</u> |

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

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

Exhibit C

**Balance Sheet - Governmental Funds
June 30, 2013**

| | <u>General Fund</u> | <u>Automation Special Revenue Fund</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|--|---|
| <u>Assets</u> | | | |
| Interest in SGF Investment Pool (note 3) | \$ 2,492,685 | \$ 323,213 | \$ 2,815,898 |
| Cash in authorized bank account | - | 565 | 565 |
| Petty cash | 1,300 | - | 1,300 |
| Accounts receivable, net | - | - | - |
| Due from employees, net (note 4) | 7,107 | - | 7,107 |
| Due from local governments (note 4) | 10,925 | - | 10,925 |
| Prepaid expenses | 29,654 | - | 29,654 |
| | <u>\$ 2,541,671</u> | <u>\$ 323,778</u> | <u>\$ 2,865,449</u> |
| <u>Liabilities and Fund Balance</u> | | | |
| Liabilities: | | | |
| Accounts payable | 1,441,231 | 65,295 | \$ 1,506,526 |
| Accrued salaries payable | 215,932 | - | 215,932 |
| Payroll taxes payable | 82,960 | - | 82,960 |
| Payroll benefits payable | 168,837 | - | 168,837 |
| Other payroll liabilities | 5,236 | - | 5,236 |
| Due to other funds | - | 50 | 50 |
| Due to State General Fund (note 6) | 643,619 | - | 643,619 |
| | <u>2,557,815</u> | <u>65,345</u> | <u>2,623,160</u> |
| Fund Balance: | | | |
| Fund balances (note 9): | | | |
| Nonspendable: | | | |
| Prepaid expenses | 29,654 | - | 29,654 |
| Restricted for the purchase and maintenance of automation systems | - | 258,433 | 258,433 |
| Unassigned | (45,798) | - | (45,798) |
| | <u>(16,144)</u> | <u>258,433</u> | <u>242,289</u> |
| Total fund balance | <u>(16,144)</u> | <u>258,433</u> | <u>242,289</u> |
| Total liabilities and fund balance | <u>\$ 2,541,671</u> | <u>\$ 323,778</u> | <u>\$ 2,865,449</u> |

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

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2013**

Total fund balance-Governmental funds \$ 242,289

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the Governmental Funds Balance Sheet.

These assets consist of:

| | | | |
|---------------------------|----|------------------|---------|
| Furniture and fixtures | \$ | 37,290 | |
| Machinery and equipment | | 131,751 | |
| Data processing equipment | | 451,629 | |
| Accumulated depreciation | | <u>(476,705)</u> | 143,965 |

Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds -

Some liabilities are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet.

These liabilities consist of:

| | | | |
|------------------------------|--|------------------|--|
| Compensated absences payable | | <u>(955,023)</u> | |
|------------------------------|--|------------------|--|

Net position of governmental activities \$ (568,769)

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

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

Exhibit D

**Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
Year Ended June 30, 2013**

| | <u>General Fund</u> | <u>Automation Special Revenue Fund</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|--|---|
| Revenues: | | | |
| Application fees | \$ - | \$ 268,722 | \$ 268,722 |
| Federal funds | - | - | - |
| Other state funds | 196,912 | - | 196,912 |
| Total revenues | <u>196,912</u> | <u>268,722</u> | <u>465,634</u> |
| Expenditures: | | | |
| General government: | | | |
| Current: | | | |
| Personal services and employee benefits | 23,388,821 | 302,713 | 23,691,534 |
| Contractual services | 10,988,418 | 24,734 | 11,013,152 |
| Other | 5,265,106 | 373,626 | 5,638,732 |
| Capital outlay | 34,049 | 94,046 | 128,095 |
| Total expenditures | <u>39,676,394</u> | <u>795,119</u> | <u>40,471,513</u> |
| Excess (deficiency) of revenues over expenditures | <u>(39,479,482)</u> | <u>(526,397)</u> | <u>(40,005,879)</u> |
| Other financing sources (uses): | | | |
| General Fund appropriations | 40,145,300 | - | 40,145,300 |
| Reversions (note 6) | (643,052) | - | (643,052) |
| Total other financing sources (uses) | <u>39,502,248</u> | <u>-</u> | <u>39,502,248</u> |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | <u>22,766</u> | <u>(526,397)</u> | <u>(503,631)</u> |
| Fund balance, beginning, as originally reported | (38,128) | 784,830 | 746,702 |
| Prior period adjustments (note 13) | (782) | - | (782) |
| Fund balance, beginning, as restated | <u>(38,910)</u> | <u>784,830</u> | <u>745,920</u> |
| Fund balance, ending | <u>\$ (16,144)</u> | <u>\$ 258,433</u> | <u>\$ 242,289</u> |

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

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Government-Wide Statement of Activities
Year Ended June 30, 2013**

| | |
|---|---------------------|
| Net change in fund balance-Governmental Funds | \$ (503,631) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. | |
| In the current period, these amounts are: | |
| Depreciation expense | (23,007) |
| Capital outlay | 128,095 |
| Some intergovernmental revenue will not be collected within 60 days of fiscal year end. These are not considered "available" revenues in the governmental funds until received. | |
| Change in amounts deferred on fund statements. | - |
| Some items reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of: | |
| Loss on capital asset disposition | - |
| Decrease in compensated absences payable | 45,812 |
| Change in net position of governmental activities | <u>\$ (352,731)</u> |

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

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2013

| | General Fund | | | |
|--|---|--------------------------------------|---|---|
| | Original Approved Budget | Final Approved Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| Revenues: | | | | |
| Intergovernmental revenue: | | | | |
| General appropriations | \$ 40,145,300 | \$ 40,145,300 | \$ 40,145,300 | \$ - |
| Federal funds | - | - | - | - |
| Other state funds | - | 225,083 | 196,912 | (28,171) |
| Total revenues | <u>40,145,300</u> | <u>40,370,383</u> | <u>\$ 40,342,212</u> | <u>\$ (28,171)</u> |
| Prior-year funds re-budgeted | - | - | | |
| | <u>\$ 40,145,300</u> | <u>\$ 40,370,383</u> | | |
| Expenditures: (note 10) | | | | |
| General government: | | | | |
| Current: | | | | |
| Personal services and employee benefits | \$ 24,259,100 | \$ 23,457,388 | \$ 23,388,821 | \$ 68,567 |
| Contractual services | 10,662,300 | 11,374,695 | 11,006,832 | 367,863 |
| Other | 5,223,900 | 5,538,300 | 5,303,506 | 234,794 |
| Other financing uses | - | - | - | - |
| Total expenditures | <u>\$ 40,145,300</u> | <u>\$ 40,370,383</u> | <u>\$ 39,699,159</u> | <u>\$ 671,224</u> |

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

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2013

| | Automation Special Revenue Fund | | | |
|--|---|--------------------------------------|---|---|
| | Original Approved Budget | Final Approved Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| Revenues: | | | | |
| Application fees | \$ 245,000 | \$ 245,000 | \$ 268,722 | \$ 23,722 |
| Interest | - | - | - | - |
| Total revenues | 245,000 | 245,000 | <u>\$ 268,722</u> | <u>\$ 23,722</u> |
| Prior-year funds re-budgeted | - | 660,000 | | |
| | <u>\$ 245,000</u> | <u>\$ 905,000</u> | | |
| Expenditures: | | | | |
| General government: | | | | |
| Current: | | | | |
| Personal services and employee benefits | \$ - | \$ 380,000 | \$ 302,713 | \$ 77,287 |
| Contractual services | 49,600 | 49,600 | 24,734 | 24,866 |
| Other | 195,400 | 475,400 | 468,345 | 7,055 |
| Total expenditures | <u>\$ 245,000</u> | <u>\$ 905,000</u> | <u>\$ 795,792</u> | <u>\$ 109,208</u> |

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

STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT

Exhibit F

Statement of Fiduciary Assets and Liabilities - Agency Fund
June 30, 2013

| | <u>Agency Fund</u> |
|--|----------------------------|
| <u>Assets</u> | |
| Interest in State General Fund Investment Pool | \$ 9,978 |
| Due from other funds | 50 |
| Accounts receivable, net | <u>1,276,320</u> |
| Total assets | <u><u>\$ 1,286,348</u></u> |
| <u>Liabilities</u> | |
| Due to State General Fund (note 6) | \$ 1,286,348 |
| Due to others | <u>-</u> |
| Total liabilities | <u><u>\$ 1,286,348</u></u> |

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

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

1. History and Organization

The Public Defender Department (Department) was created by Chapter 31, Article 15, NMSA, 1978 Compilation. The Chief Public Defender is the administrative head of the Department who is appointed by the Governor. The Chief Public Defender, in turn, appoints seven District Public Defenders. The purpose of the Department is to confer with and represent any person charged with any crime that carries a possible sentence of imprisonment and who appears in court without counsel. If the person is financially unable to obtain counsel, he/she is to be represented by the District Public Defender of the appropriate jurisdiction at all stages of the proceeding against him/her, including any appeal. The Chief Public Defender shall establish within the Department an appellate Division to provide representation before the court of appeals and Supreme Court in appellate, review and post conviction proceedings involving persons represented under the Public Defender Act (31-15-1 to 31-15-12, NMSA 1978).

In the November 6, 2012 general election a new section to Article 6 of the Constitution of New Mexico was approved by the electorate. That action established the Public Defender Department ("Department") as an independent state agency, thereby removing the Department from its previous location, where it was administratively attached to the Corrections Department. The amendment removed the authority of the Governor to appoint the Chief Public Defender and, instead, created a Public Defender Commission empowered to appoint and provide administrative guidance to the Chief Public Defender and exercise oversight of the Department. Additionally, the amendment allowed the Legislature to establish the term and qualification requirements for both the Chief Public Defender and the members of the Public Defender Commission and to establish the manner in which the members of the commission would be appointed. An eleven member Commission was appointed and sworn in on August 22, 2013.

2. Summary of Significant Accounting Policies

The financial statements of the Department have been prepared in conformity with accounting principles generally accepted (US GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes US GAAP for governmental units. The more significant of the Department's accounting policies are described below.

A. Financial Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in US GAAP. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

2. Summary of Significant Accounting Policies (cont'd)

A. Financial Reporting Entity (cont'd)

Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

The Department is legally separate and fiscally independent of other state agencies. The Chief Public Defender has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The Public Defender Department is a 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, at present, issue a reviewed but not an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government. Included within the reporting entity is the Public Defender Department as described above. There are no component units. Other Executive Branch entities of government are excluded because they are established separately by statutes.

B. Basic Financial Statements – GASB Statement No. 34

The basic financial statements include both government-wide (based on the Public Defender Department as a whole) and fund financial statements. The reporting model focus is on either the Department as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities.

The Department has only governmental type activities. In the government-wide Statement of Net Assets, the governmental column reflects an accrual basis of accounting and an economic measurement focus resources basis, which incorporates long-term assets as well as long-term debt and obligations. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduced gross expenses (including depreciation) by related program revenues. The program revenues must be directly associated with the function. Program revenues include charges for services (indigent client non-refundable application fees) and federal and state operating grants mainly associated with various Judicial District Juvenile and Adult Drug Courts.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

2. Summary of Significant Accounting Policies (cont'd)

B. Basic Financial Statements – GASB Statement No. 34 (cont'd)

The Public Defender Department includes only one function (general government). General revenues (General Fund appropriation, transfers-in from other state agencies, refunds, etc.) normally cover the net cost (by function). Historically, the prior model did not summarize or present net cost by function or activity. Also, neither fiduciary funds nor component units that are fiduciary in nature are included in the government-wide financial statements.

This government-wide focus is more on the sustainability of the Public Defender Department as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous accounting model. The governmental fund statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Department's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund-based financial statements into the governmental column on the government-wide presentation.

C. Basis of Presentation – Fund Accounting

The financial transactions of the Department are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The various funds are summarized by type and reported by generic classification in the accompanying financial statements. GASB Statement No. 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures. The general fund is always considered a major fund. The Department uses the following fund types:

GOVERNMENTAL FUND TYPES

The focus of Governmental Fund measurement (in the fund financial statements) is based upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the Public Defender Department.

General Fund - the General Fund (SHARE Fund #175-reverting) is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The regular general appropriation accounted for in this fund is reverting.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

2. Summary of Significant Accounting Policies (cont'd)

C. Basis of Presentation – Fund Accounting (cont'd)

GOVERNMENTAL FUND TYPES (cont'd)

Automation Special Revenue Fund (SHARE Fund #759-nonreverting – Section 31-15-5 1B) - Used to account for those proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The legal restrictions on expenditures and the authority for the creation of the Automation Special Revenue Fund is a result of Senate Bill 222 of the 41st Legislature of the State of New Mexico, which amended Section 31-15-12, NMSA, 1978 Compilation and created the fund. This fund is also considered a major fund under GASB 34 criteria.

FIDUCIARY FUND TYPES

Agency Fund - The Agency Fund (SHARE Fund #753-reverting) is used to account for the reimbursement from each person who has received legal representation or another benefit under the Public Defender Act after a determination is made that the person was not indigent according to the standard for indigence adopted by the Department. Any amounts recovered revert, less collection agent fees, to the State General Fund. The authority for creation of this fund is a result of the Laws of 1987, Chapter 20, NMSA, 1978 Compilation, amending Sections 31-15-7, 32-1-56, 34-6-46, 34-8A-11 and 35-5-8.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The government-wide and the fiduciary financial statements are presented on an accrual basis of accounting. The previous model reported fiduciary funds under the modified accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Due to the implementation of GASBS 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in fiscal year 2013, the Department reclassified “net assets” in the financial statements as “net position.” In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Department did not have any items that qualified for reporting in this category at June 30, 2013. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Department did not have any items that were required to be reported in this category at June 30, 2013.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

2. Summary of Significant Accounting Policies (cont'd)

D. Basis of Accounting (cont'd)

During FY13, the Department also implemented GASBS 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASBS 62 incorporates any old FASB statements that apply to government accounting into GASB statements. Therefore, the old policy disclosure is no longer necessary, regarding what FASB pronouncements apply, or do not apply, to the Department's financial statements.

The governmental funds in the fund financial statements are presented on a modified accrual basis of accounting.

Modified Accrual – All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or expected to be received within sixty days of year-end to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Nonexchange transactions, in which the Department receives value without directly giving equal value in return, includes grants.

Revenue from grants is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Department must provide state resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Department on a reimbursement basis. On a modified accrual basis of accounting, revenue from a nonexchange transaction must also be available before it is recognized. Under the modified accrual basis of accounting, grant revenue sources are considered to be both measurable and available at year-end. There are no interfund transactions to be eliminated.

E. Budgets and Budgetary Accounting

The New Mexico State Legislature makes annual appropriations to the Department. Legal compliance is monitored by the establishment of a budget (modified accrual basis) and a financial control system that permits a budget to actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation unit level.

Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitations as specified in the General Appropriation Act. The budget amounts shown in the financial statements are both the original appropriation and the final authorized amounts as legally revised during the year.

The Public Defender Department follows these procedures in establishing the budgetary data reflected in the financial statements:

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

2. Summary of Significant Accounting Policies (cont'd)

E. Budgets and Budgetary Accounting (cont'd)

1. By September 1st, the Public Defender Department prepares a budget request by appropriation unit to be presented to the next legislature.
2. The appropriation request is submitted to the Department of Finance and Administration's Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which become the Governor's proposal to the Legislature.
4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budgetary control is exercised at the appropriation unit level of the Public Defender Department as a whole and changes are approved by the DFA.
7. The Public Defender Department's budget for the fiscal year ending June 30, 2013 was amended in a legally permissible manner by increasing or reallocating appropriation unit totals as the need arose during the fiscal year. Individual amendments were not material in relation to the original budget.
8. Appropriations lapse at the end of the year except for those amounts related to goods and services received by June 30th which are reflected as accounts payable in the financial statements.
9. The budgets for the General and Special Revenue Funds are adopted on a modified accrual basis per the General Appropriation Act, Laws of 2012. For the year ended June 30, 2013, in the General Fund, the Department has requested approval to pay prior-year payables that did not get paid within 31 days after the end of the fiscal year. The cash to pay those obligations is reverted to the State General Fund causing a negative fund balance. Although reflected as current year expenditures, those payables are paid out of next year's budget. Therefore, there are differences between the current year budgeted expenditures and fund financial statements expenditures.

In accordance with the requirements of Section 2.2.2.10, A(2)(b) of 2.2.2 NMAC *Requirements for Contracting and Conducting Audits of Agencies* and the allowance made by GASB 34, footnote 53, the budgetary comparison statements have been included as a part of the basic financial statements. For the General and Special Revenue Funds, the reconciliation between current year fund financial statement expenditures and budgeted expenditures is presented in Note 10.

F. Encumbrances/Contract Attorney Contracts

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration during the year in the governmental funds. So long as the appropriation period has not lapsed and budget exists, an encumbrance can be charged against the budget. However, when the appropriation period lapses, the budget authority is non-existent and the encumbrance can no longer be charged to that budget.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

2. Summary of Significant Accounting Policies (cont'd)

F. Encumbrances/Contract Attorney Contracts (cont'd)

Legislation sets the appropriation period, which can be single or multi-year periods. At June 30, 2013, there were no multi-year encumbrances. However, for contract attorney contracts this is not true because the contract specifically states that the "Department shall not be bound by any numerical estimates of compensation." There is not a commitment by the Department to pay any amount at the time of contracting. The commitment (on a per case basis) arises when the contractor has had at least one documented direct contact with the client or has made one documented court appearance on the client's behalf. Contract attorney expenditures are charged to the budget fiscal year where the commitment exists.

G. Interest in State General Fund Investment Pool

The Department has defined cash and cash equivalents to include the Interest in State General Fund Investment Pool with the State Treasurer.

H. Receivables

Receivables consist of various accounts receivable including amounts due from employees for payroll overpayments and PERA/RHC contributions not withheld, and amounts due from local governments. An allowance for doubtful accounts in the amount of \$12,242 has been established for those deemed uncollectible. See Note 4 below for details.

Agency fund accounts receivable consist of amounts due from persons who have received legal representation or another benefit under the Public Defender Act after a determination is made that the person is not indigent according to the standard for indigence adopted by the Department. An allowance for uncollectible accounts has been established in the amount of \$32,442,437, representing all outstanding amounts due from clients that are greater than six months old.

I. Capital Assets

Capital assets are tangible assets that are used in operations and that have initial useful lives that extend beyond a single reporting period. Capital assets are reported in the Statement of Net Assets at historical cost or estimated fair value, if donated. Capital assets are depreciated using zero salvage value and the straight-line method over their estimated useful lives. Items with a cost of less than \$5,000 are expensed in the year of acquisition. Repairs and maintenance expenses are charged to operations when incurred and major betterments and replacements are capitalized. There is no debt related to capital assets.

Before the 2005 legislative session, only items costing more than \$1,000 were capitalized. Effective June 19, 2005, House Bill 1074 amended Section 12-6-10, NMSA 1978, to increase the capitalization threshold to items costing more than \$5,000. The Department has elected to include assets that cost less than \$5,000 but equal to or more than \$1,000, and were purchased prior to July 1, 2005, on their capital asset inventory.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

2. Summary of Significant Accounting Policies (cont'd)

I. Capital Assets (cont'd)

The major classifications of capital assets and their related depreciable lives are as follows:

| | |
|--|-------------|
| Machinery and equipment | 4-20 years |
| Data processing equipment (including software) | 4-5 years |
| Furniture and fixtures | 10-20 years |

J. Accrued Compensated Absences

Employees are entitled to accumulate annual leave at a rate based on appointment date and length of continuous service. A maximum of 240 hours of annual leave may be carried forward after the pay period beginning in December and ending in January. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours. Employees are entitled to accumulate sick leave at a rate of 3.69 hours per pay period. There is no limit to the amount of sick leave that an employee may accumulate.

State agencies are allowed to pay fifty (50) percent of each employee's hourly rate for accumulated sick leave over 600 hours up to 120 hours. Payment may be made only once per fiscal year at a specified pay period in either January or July. Nonexempt employees accumulate compensation time for hours worked in excess of forty hours per week, based on their regular hourly rate. Such overtime must be pre-approved by management. Payment of this liability can be made by compensated leave time or cash payment. At June 30, 2013, there was no compensation time owed to any employee.

The compensated absences liability is presented in two parts, a current portion and long-term portion, in the government-wide financial statements. The current portion is the amount expected to be expended during fiscal year 2013 and is an estimate management determined by the last fiscal year's usage. Based on this estimate, for the year ended June 30, 2013, the current portion of the compensated absences liability is \$935,300. The long-term portion is \$19,723. In accordance with GASB 16, accrued compensated absences consist of accumulated annual leave and related salary payments (employers' matching FICA and Medicare payroll taxes).

K. Reversions

Unexpended and unencumbered balances are generally reverted to the State General Fund. Laws of 2012 state that unexpended or unencumbered balances of the State General Fund appropriation to the Department shall revert. Accordingly, reversions have been recorded in the current year for General Fund appropriations. Also, unexpended balances of special appropriations are reverted when required by law.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

2. Summary of Significant Accounting Policies (cont'd)

L. Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted. Net *investment in capital assets* reflects the portion of net position which is associated with non-liquid capital assets. *Restricted net position* is liquid assets which have third-party (statutory, bond covenant or granting agency) limitation on its use. When expenses are incurred for purposes for which both unrestricted and restricted funds are available, it is the policy of the Department to first apply restricted resources. *Unrestricted net position* represents unrestricted liquid assets.

M. Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimated and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Interest in State General Fund Investment Pool

Funds with the State Treasurer are in the State General Fund Investment Pool (SGFIP). Cash in authorized bank accounts includes one checking account. The Department also maintains thirteen (13) \$100 imprest petty cash funds at various locations within the state. The Department holds no investments. The State Treasurer has the power to invest money held in demand deposits and not immediately needed for the operation of state government in securities in accordance with Sections 6-10-10 I through P, NMSA 1978, as amended. For additional disclosure information regarding the investment in the State Treasurer's SGFIP, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2013, review the State Treasurer's Investment Policy at <http://www.stonm.org/ReportsandPolicies/Policies>, and review Sections 2.60.4.1 through 2.60.4.15 of the New Mexico Administrative Code, regarding Investment of Deposits of Public Funds Depository Bank Requirements, Collateral Level Requirements, and Custodial Bank Requirements.

Since the one individual special revenue funds' checking account balance did not exceed \$250,000, it is fully insured by the Federal Deposit Insurance Corporation (FDIC) and pledged collateral is not required. Accounts of the Department at June 30, 2013 are as follows:

| Account Name | Fund Type | Fund No. | Account Type | Balance per Depository | Outstanding Checks | Balance per Financial Statements | |
|--------------------------------------|------------------|-----------------|---------------------|-------------------------------|---------------------------|---|--------------|
| State Treasurer: | | | | | | | |
| Operating | General | 355-175 | SGFIP | \$ 2,492,685 | \$ - | \$ 2,492,685 | |
| Automation | Special Revenue | 355-759 | SGFIP | 323,213 | - | 323,213 | |
| Centinel Bank-Taos | Special Revenue | N/A | Checking | 565 | - | 565 | |
| Petty Cash | | | | 1,300 | - | 1,300 | |
| Subtotal Governmental Funds | | | | 1,300 | 2,816,463 | - | 2,817,763 |
| State Treasurer: | | | | | | | |
| Client Reimbursements | Agency | 355-753 | SGFIP | 9,978 | - | 9,978 | |
| Total cash on deposit and petty cash | | | | \$ 1,300 | \$ 2,826,441 | \$ - | \$ 2,827,741 |

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

4. Receivables

Accounts receivable – this represents an amount due (\$11,083) from a former contract attorney for a duplicate payment and is considered uncollectible.

Due from employees – this represents amounts due from former employees (\$1,159) for payroll overpayments and for amounts associated with Public Employees’ Retirement and Retiree Health Care contributions (\$7,107), that were not initially withheld from employees’ paychecks. Only the payroll overpayments are considered uncollectible.

Due from local governments – this represents amounts due and received after June 30 from various statewide judicial district juvenile and adult drug courts, \$10,925.

Accounts receivable (Agency Fund) – Laws of 1987, Chapter 20, require the Chief Public Defender to “provide for collection reimbursement from each person who has received legal representation or another benefit under the Public Defender Act after a determination is made that the person is not indigent according to the standard for indigence adopted by the Department.” The maximum charge per defendant may be as much as \$27,500. The law further requires that “any amounts recovered shall be paid to the State Treasurer for credit to the State General Fund.” Accordingly, the resulting receivable and cash collected during the year are recorded as assets with a resulting liability to the State General Fund less any amounts due a collection agency or others.

5. Changes in Capital Assets

A summary of changes in capital assets is as follows:

| | <u>Balance 7/1/12</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 6/30/13</u> |
|---------------------------|---------------------------|-------------------|------------------|----------------------------|
| Machinery and equipment | \$ 131,750 | \$ - | \$ - | \$ 131,750 |
| Accumulated depreciation | (131,250) | (354) | - | (131,604) |
| Data processing equipment | 343,535 | 108,095 | - | 451,630 |
| Accumulated depreciation | (305,158) | (22,487) | - | (327,645) |
| Furniture and fixtures | 17,290 | 20,000 | - | 37,290 |
| Accumulated depreciation | (17,290) | (166) | - | (17,456) |
| Totals | <u>\$ 38,877</u> | <u>\$ 105,088</u> | <u>\$ -</u> | <u>\$ 143,965</u> |

There is no debt related to capital assets. Depreciation expense for the year was \$23,007.

6. Due to State General Fund

Section 6-5-10 NMSA 1978 requires all unreserved, undesignated fund balances in reverting funds and accounts revert to the State General Fund by September 30 of each year. An agency may adjust the reversion within forty-five days of release of the audit report. The current year reversion and amounts due to the State General Fund from the Department general fund are as follows:

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

6. Due to State General Fund (cont'd)

| | |
|--|-------------------|
| Fiscal year general appropriation reversion (budget basis surplus) | |
| FY 2013 unexpended balance, Org P720 | \$ 643,052 |
| FY2012 refunds | <u>567</u> |
| Total Due to State General Fund | <u>\$ 643,619</u> |

The amount due to the State General Fund from the Agency Fund is composed of the following:

| | |
|---------------------------------|---------------------|
| Accounts receivable, net | \$ 1,276,320 |
| Interest in SGF Investment Pool | 9,978 |
| Amounts due to other funds | <u>50</u> |
| Due to State General Fund | <u>\$ 1,286,348</u> |

7. Leases

The Department leases office space in twelve locations throughout the State and meeting/training room space, as needed. All leases have an early termination clause. Accordingly, there are no future minimum rentals.

The Department also leases several postage meters and copying machines considered operating leases. All leases may be canceled at the end of any fiscal year with no penalty. Total office space and equipment rent expense for the year ended June 30, 2013 were \$2,219,635 and \$145,668, respectively.

The Department also leases twenty-six (26) vehicles on a month-to-month basis and other short-term vehicles as needed. Total vehicle lease expense was \$64,858 for FY 2013.

8. Changes in Long-Term Debt

A summary of changes in long-term debt is as follows:

| | <u>Balance 7/1/12</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 6/30/13</u> | <u>Due Within One Year</u> |
|------------------------------|---------------------------|-------------------|---------------------|----------------------------|--------------------------------|
| Compensated Absences Payable | <u>\$ 1,000,835</u> | <u>\$ 889,472</u> | <u>\$ (935,284)</u> | <u>\$ 955,023</u> | <u>\$ 935,300</u> |

The Public Defender Department's general fund is used to pay compensated absences.

9. Fund Balance

The GASB issued Statement 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned, or unassigned).

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

9. Fund Balance (cont'd)

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.

Currently, in the general fund only, the Department has nonspendable fund balance for prepaid expenses in the amount of \$29,654 and unassigned deficit fund balance in the amount of (\$45,798) which is partially the result of the Department's request to pay prior-year payables in the amount of \$2,736 that did not get paid within thirty-one days after the end of the fiscal year.

The funds to pay those obligations are reverted to the State General Fund, causing a negative fund balance. Although reflected as current year expenditures, those payables are paid out of next year's budget. The allowance for uncollectible receivables and unresolved ongoing issues with payroll tax, payroll benefits and other payroll liabilities also impact the general fund negative fund balance. Also, see note 16 on page 24.

Fund Balance-Restricted for purchase and maintenance of automation systems - Senate Bill 222 of the 41st legislature of the State of New Mexico amended Section 13-15-12, NMSA, 1978, and created the Special Revenue Automation Fund. Revenues of the fund are generated by assessing each person who applies for Public Defender representation a non-refundable \$10 fee.

There are provisions for waiver of the fee. The law further provides that application fee revenue shall be used for the purchase and maintenance of automation systems. Accordingly, unexpended balances remaining in the fund are presented as such in the amount of \$258,433.

10. Reconciliation of Fund Expenditures to Budgetary Expenditures

A reconciliation of fund expenditures to budgetary expenditures presented on an accounting principles generally accepted in the United States of America (modified-accrual) basis is shown below:

| | General Fund | | | |
|-------------------------------------|---|---|---|--|
| | Actual Fund Expenditures | FY12 Payables Charged to FY13 Budget | FY13 Payables Charged to FY14 Budget | Actual Budgetary Expenditures |
| General Government: | | | | |
| Current: | | | | |
| Personal services/employee benefits | \$ 23,388,821 | \$ - | \$ - | \$ 23,388,821 |
| Contractual services | 10,988,418 | 18,414 | - | 11,006,832 |
| Other | 5,299,155 | 7,087 | (2,736) | 5,303,506 |
| Total expenditures | <u>\$ 39,676,394</u> | <u>\$ 25,501</u> | <u>\$ (2,736)</u> | <u>\$ 39,699,159</u> |

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

10. Reconciliation of Fund Expenditures to Budgetary Expenditures (cont'd)

| | Automation Special Revenue Fund | | | Actual Budgetary Expenditures |
|-------------------------------------|---|---|---|--|
| | Actual Fund Expenditures | FY12 Payables Charged to FY13 Budget | FY13 Payables Charged to FY14 Budget | |
| General Government: | | | | |
| Current: | | | | |
| Personal services/employee benefits | \$ 302,713 | \$ - | \$ - | \$ 302,713 |
| Contractual services | 24,734 | - | - | 24,734 |
| Other | 467,672 | 673 | - | 468,345 |
| Total expenditures | <u>\$ 795,119</u> | <u>\$ 673</u> | <u>\$ -</u> | <u>\$ 795,792</u> |

11. PERA Pension Plan

Plan Description. Substantially all of the State of New Mexico, Public Defender 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, New Mexico 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute from 3.83% to 16.65% depending upon the plan - i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer of their gross salary. The Public Defender Department is required to contribute from 7.0% to 25.72% depending upon the plan of the gross covered salary. The contribution requirements of plan members and the Public Defender 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 fiscal years ended June 30, 2013, 2012 and 2011 were \$2,564,977, \$2,162,906 and \$2,520,171, respectively, equal to the amount of the required contributions for each fiscal year.

12. Post-Employment Benefits – State Retiree Health Care Plan

Plan Description. The State of New Mexico, Public Defender Department contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies. Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

12. Post-Employment Benefits – State Retiree Health Care Plan (cont'd)

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 NMRHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years. The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post employment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle Blvd., NE, Suite 104, Albuquerque, New Mexico 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 medical plus basic life plan and an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the state required each participating employer to contribute 2.5% of each participating employees annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act. The Public Defender Department's contributions to the RHCA for the fiscal years ended June 30, 2013, 2012 and 2011 were \$340,162, \$295,814 and \$276,554, respectively, which equal the required contributions for each fiscal year.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

13. Prior Period Adjustments

Beginning fund balance and net assets were restated due to the following:

General Fund:

| | |
|--|---------------|
| Amounts not included in FY12 accounts payable (requests to pay prior-year bills submitted after FY12 audit - charged to FY13 budget) - Org unit P720 | <u>\$ 782</u> |
|--|---------------|

14. Risk Management and Litigation

The Public Defender Department is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Section 15-7-2 NMSA 1978 requires the General Services Department, Risk Management Division (RMD) to be responsible for the acquisition and administration of all insurance purchased by the state. Since 1977, various state statutes have been passed which allow RMD to insure, self-insure or use a combination of both.

For the past several years, the RMD has elected to self-insure and has not obtained liability coverage from commercial insurance companies. The RMD has effectively managed risk through various employee education and prevention programs. Risk management expenditures for the Public Defender Department are accounted for in the general fund. Any claims are processed through RMD. There are no pending or known threatened legal proceedings involving material matters to which the Public Defender Department is a party.

15. Operating Transfers

| | From | To | Purpose |
|--|---------------|---------------|------------------------|
| Dept. of Finance and Admin (Fund #853) | \$ 40,145,300 | | Regular Appropriation |
| Public Defender Department (Fund #175) | | \$ 40,145,300 | |
| Public Defender Department (Fund #175) | \$ 643,052 | | Current-year reversion |
| Dept. of Finance and Admin (Fund #853) | | \$ 643,052 | |

16. Deficit Unrestricted Net Position/Unreserved-Undesignated Fund Balance

The deficit unrestricted net position, \$971,167, on the Statement of Net Position, Exhibit A, is mainly the result of compensated absences (\$955,023) and requests to pay prior-year bills (\$2,736) included in current-year expenditures and accounts payable but not allowed as a reduction in the current year reversion and amounts due to the State General Fund. The reasons for the negative fund balance on the fund financial statements are described in Note 9 on page 21.

The Department continues to take measures to address the requests to pay prior-year bills issue (mainly expert witness requests) to reduce or eliminate these deficit/negative balances. The Department was able to determine outstanding obligations at the end of the fiscal year and reduced the occurrences of having to pay invoices out of a subsequent year's budget. The initial FY13 amount totaled \$2,736 as opposed to a total of \$25,394 in FY12.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

17. Statewide Cash Reconciliation Issue

The cash to bank reconciliation for the State of New Mexico is performed at the statewide level by the Office of the State Treasurer and the Department of Finance and Administration (DFA). A report titled *Current State Diagnostic of Cash Control* prepared by Deloitte Consulting, LLP, dated June 20, 2012, stated on page 2 that “As of June, 2012, the SHARE book to bank reconciliation contains a significant number of un-reconciled items. Reconciling items are where a SHARE system transaction (general ledger (GL) journal entry) may or may not have a corresponding bank transaction or a bank transaction may or may not have a corresponding SHARE transaction. According to information gathered during the preparation of this report, there are 32 categories of reconciling items ranging in size from less than \$1,000,000 to over \$6,000,000,000 with an absolute value total in excess of \$32,500,000,000 for the periods of FY 2007 through FY 2011. The count of individual reconciling items exceeds 1,400,000 transactions between FY 2010 and FY2011. A transaction count is not available for FY2007 through FY2009. Reconciling items also include warrants that have been issued but have not cleared the bank.

A related updated report titled *Cash Management Plan and Business Processes* dated October 11, 2012, also prepared by Deloitte Consulting, LLP, states on page 30 that “The main premise (Premise) of the PeopleSoft Treasury reconciliation functionality is that all system transactions have an accounting entry on the general ledger and each bank transaction reconciles to a system transaction. Designing the processes to follow the Premise of the system will virtually eliminate the need for manual entries to cash directly on the GL.” This report identified three areas that the Department uses report-identified business processes: deposit processing (page 48); disbursement processing (page 54); and other bank activity processing (manual SHARE GL Journal) and ability to record pre and/or post bank activity.

The Department of Finance Administration (DFA), 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, conducted a Cash Management Remediation Project (Remediation Project) with a goal of achieving “a point forward” reconciliation of cash, in February 2013. A DFA representative verbally indicated to the Office that the SHARE cash reconciliation process from February 2013 forward, is working for agencies like the Office that issue warrants through DFA. As of June 30, 2013, the old unreconciled items that occurred from July 1, 2006 through February 2013, remain unreconciled.

On March 15, 2013, the third party PeopleSoft Treasury expert provided DFA with an additional report titled “Approach to the Historical Reconciliation of Bank Transactions.” This report describes three possible approaches to addressing the remaining reconciliation issue: (1) adjust balances only; (2) fully reconcile only the differences created from 2010 through the present that were created while Wells Fargo was the fiscal agent; or (3) fully reconcile the differences created: from 2002 through 2006 while Wells Fargo was the fiscal agent, from 2006 through 2010 while Bank of America was the fiscal agent and from 2010 through the present while Wells Fargo was again the fiscal agent. DFA is currently requesting a 3.2 million dollar supplemental appropriation to address the remaining reconciliation issues.

The Department’s chief financial officer has developed the following internal control procedures to monitor the monthly changes in the Department’s Interest in General Fund Investment Pool accounts related to each of these areas of risk noted in the report referenced above: deposits;

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Notes to Financial Statements
June 30, 2013**

17. Statewide Cash Reconciliation Issue (cont'd)

disbursements; and journal entries posted to the Interest in General Fund Investment Pool accounts in SHARE. These internal control procedures have been in effect for the most part since the conversion to SHARE in FY07. The Department's accountant/auditor inputs into an Excel spreadsheet all monthly changes in every account from the SHARE trial balance report, and then the accountant/auditor ties the changes in these various account balances back to the monthly change in the Department's Interest in General Fund Investment Pool accounts. In addition, the monthly deposits per the general ledger are tied back to the original deposit documentation, or in the case of an appropriation, the deposits are tied back to the original law. The changes in the payroll liabilities that are posted to the Department's general ledger by DFA are scheduled out on an Excel spreadsheet by the chief financial officer for the entire year, and reviewed for consistency and reasonableness. Expenditures recorded for each month, and the related change in the accounts payable balances are included in the overall reconciliation back to the monthly change in the Department's Interest in General Fund Investment Pool accounts. The Department's accountant/auditor reviews the posting of all journal entries to ensure that the resulting effect on the Interest in General Fund Investment Pool and other accounts is the intended result. These processes that have been put into place by the Department's chief financial officer are the reasons that risk of misstatement of the Department's Interest in General Fund Investment Pool accounts has been mitigated to a low level of risk, even though there are significant problems with the statewide cash reconciliation process.

SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

Schedule 1

**Schedule of Changes in Assets and Liabilities
Agency Fund
Year Ended June 30, 2013**

| | <u>Balance July 1, 2012</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2013</u> |
|---------------------------------|---------------------------------|---------------------|-----------------------|----------------------------------|
| <u>Assets</u> | | | | |
| Interest in SGF Investment Pool | \$ 7,918 | \$ 455,613 | \$ (453,553) | \$ 9,978 |
| Due from other funds | - | 50 | - | 50 |
| Accounts receivable | 32,492,993 | 1,727,689 | (501,925) | 33,718,757 |
| Less: | | | | |
| Allowance for uncollectibles | <u>(30,850,631)</u> | <u>(1,591,806)</u> | <u>-</u> | <u>(32,442,437)</u> |
| Total assets | <u>\$ 1,650,280</u> | <u>\$ 591,546</u> | <u>\$ (955,478)</u> | <u>\$ 1,286,348</u> |
| <u>Liabilities</u> | | | | |
| Due to State General Fund | \$ 1,650,280 | \$ 1,727,759 | \$ (2,091,691) | \$ 1,286,348 |
| Due to others | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>\$ 1,650,280</u> | <u>\$ 1,727,759</u> | <u>\$ (2,091,691)</u> | <u>\$ 1,286,348</u> |

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Schedule of Memoranda of Understanding
Year Ended June 30, 2013**

| <u>Participants</u> | <u>Administering Agency</u> | <u>Description</u> | <u>Term</u> | <u>Total Amount</u> | <u>PDD Amount</u> | <u>Audit Responsibility</u> |
|---|-----------------------------|---|----------------|---------------------|-------------------|-----------------------------|
| New Mexico Public Defender Department and Administrative Office of the Courts | Public Defender Department | PDD will provide a criminal/delinquency defense attorney to report to the Drug Court Advisory Team meetings and to provide the Advisory Team with expert consultation services from the criminal/delinquency defense perspective for the DWI/Drug Court program in Valencia County. | 7/1/12-6/30/13 | \$ 20,000 | \$ - | PDD |

- (1) Reporting is the responsibility of all parties involved.
- (2) The expenditures are reported in the books of the responsible party.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Schedule of Memoranda of Understanding
Year Ended June 30, 2013**

| <u>Participants</u> | <u>Administering Agency</u> | <u>Description</u> | <u>Term</u> | <u>Total Amount</u> | <u>PDD Amount</u> | <u>Audit Responsibility</u> |
|---|-----------------------------|---|----------------|---------------------|-------------------|-----------------------------|
| New Mexico Public Defender Department and Administrative Office of the Courts | Public Defender Department | PDD will provide a criminal/delinquency defense attorney to report to the Drug Court Advisory Team meetings and to provide the Advisory Team with expert consultation services from the criminal/delinquency defense perspective for the DWI/Drug Court program in Torrance County. | 7/1/12-6/30/13 | \$ 11,520 | \$ - | PDD |

- (1) Reporting is the responsibility of all parties involved.
- (2) The expenditures are reported in the books of the responsible party.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Schedule of Memoranda of Understanding
Year Ended June 30, 2013**

| <u>Participants</u> | <u>Administering Agency</u> | <u>Description</u> | <u>Term</u> | <u>Total Amount</u> | <u>PDD Amount</u> | <u>Audit Responsibility</u> |
|---|-----------------------------|---|-----------------|---------------------|-------------------|-----------------------------|
| New Mexico Public Defender Department and San Miguel County | Public Defender Department | PDD will provide a criminal/delinquency defense attorney to report to the DWI "Sobriety" Drug Court Advisory Team meeting and to provide the Advisory Team with expert consultation services from the criminal/delinquency defense perspective for the DWI "Sobriety" Court Program in San Miguel County. | 10/1/12-9/30/13 | \$ 12,000 | \$ - | PDD |
| | | | 10/1/11-9/30/12 | \$ 7,500 | \$ - | PDD |

- (1) Reporting is the responsibility of all parties involved.
- (2) The expenditures are reported in the books of the responsible party.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Schedule of Memoranda of Understanding
Year Ended June 30, 2013**

| <u>Participants</u> | <u>Administering Agency</u> | <u>Description</u> | <u>Term</u> | <u>Total Amount</u> | <u>PDD Amount</u> | <u>Audit Responsibility</u> |
|---|-----------------------------|---|----------------|---------------------|-------------------|-----------------------------|
| New Mexico Public Defender Department and Administrative Office of the Courts | Public Defender Department | PDD will provide a criminal/delinquency defense attorney to report to the Drug Court Advisory Team meetings and to provide the Advisory Team with expert consultation services from the criminal/delinquency defense perspective for the DWI/Drug Court program in Doña Ana County. | 7/1/12-6/30/13 | \$ 20,000 | \$ - | PDD |

- (1) Reporting is the responsibility of all parties involved.
- (2) The expenditures are reported in the books of the responsible party.

TABLE 2

**Public Defender Department
Performance Measures Summary**

35500

| Purpose/Measure | | FY12 Actual | FY13 Actual | FY14 Budget | FY15 Request | FY15 Recomm |
|-----------------|---|----------------|----------------|----------------|-----------------|----------------|
| P720 | Public Defender Department | | | | | |
| | The purpose of the criminal legal services program is to provide effective legal representation and advocacy for eligible clients so their liberty and constitutional rights are protected and to serve the community as a partner in assuring a fair and efficient criminal justice system that sustains New Mexico's statutory and constitutional mandate to adequately fund a statewide indigent defense system. | | | | | |
| * Output | Number of alternative sentencing treatment placements for felony and juvenile clients | 9,679 | 8,726 | 10,000 | 10,000 | |
| Output | Number of cases diverted out of the criminal justice system prior to the return of an indictment | 35,370 | n/a | 35,500 | | |
| * Quality | Percent of felony cases resulting in a reduction of original formally filed charges | 61.25% | 52.3% | 65% | 65% | |
| Quality | Percent of misdemeanor cases resulting in a reduction of the original formally filed charges | | | 65% | 65% | |
| Quality | Percent of juvenile cases resulting in a reduction of the original formally filed charges | | | 65% | 65% | |
| * Efficiency | Percent of cases in which application fees were collected | 35% | 35.6% | 45% | 45% | |

* - recommended for General Appropriation Act



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditors' Report

Ben Baur, Acting Chief Public Defender
Public Defender Department
and
Honorable Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited, except as discussed below, 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, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information and the respective budgetary comparisons for the General Fund and the Major Special Revenue Fund of the State of New Mexico, Public Defender Department (Department) as of and for the year ended June 30, 2013, and have issued our report thereon dated November 6, 2013, which was qualified because we were unable to obtain sufficient evidential matter to satisfy ourselves that accounts receivable, recorded in the agency fund, are complete.

Internal Control Over Financial Reporting

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

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

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

We consider the deficiency described in the accompanying schedule of findings and responses as 2007-1 to be a material weakness.

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 are required to be reported under *Government Auditing Standards*.

The Department' Response to Finding

The Public Defender Department's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Macias, Gutierrez & Co., CPAs, P.C.

Macias, Gutierrez & Co., CPAs, P.C.
Española, New Mexico
November 6, 2013

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Schedule of Findings and Responses
June 30, 2013**

| | <u>Type of Finding *</u> | <u>Prior Year Finding Number</u> | <u>Current Year Finding Number</u> |
|---|----------------------------------|--|--|
| Current Year Findings: | | | |
| Accounts Receivable - Client Reimbursements | A | 2007-1 | 2007-1 |
| Follow-up on Prior Year Findings: | | | |
| Accounts Receivable - Client Reimbursements | A | 2007-1 | 2007-1 |
| PERA/RHC Contributions | B | 2007-3 | Resolved |
| Requests to Pay Prior-Year Bills | B | 2008-1 | Resolved |

*** Legend for Findings:**

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Other Matters involving Internal Control Over Financial Reporting
- D. Material Instance of Noncompliance
- E. Immaterial Instance of Noncompliance

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Schedule of Findings and Responses
June 30, 2013**

2007-1 (Material Weakness)

Accounts Receivable – Agency Fund – Client Reimbursements

Criteria

All legal representation fees due from Department determined non-indigent clients should be recorded as agency fund accounts receivable and collected as provided in Section 34-6-46 NMSA 1978. The Department might pursue any authority under the law, including petitioning District Court, for complete write-off of uncollectible accounts.

Condition

We were unable to obtain sufficient evidential matter to satisfy ourselves that accounts receivable, recorded in the Department's agency fund, are complete. Certain accounts receivable are considered to be uncollectible, due to incarceration, death or other circumstances; therefore, an allowance for doubtful accounts has been established representing all outstanding amounts due from clients that are greater than six months old. For FY13, the recorded net receivable decreased by \$366,042 and the allowance for doubtful accounts increased by \$1,591,806.

Cause

There are many items that may contribute to the incomplete/and inadequate system of ensuring that all clients that are determined to be ineligible for free services do sign a contract and that the resulting contract is entered into the accounts receivable system. One large contributor to the problem is that there are systematic difficulties in getting accurate, timely, and complete information and documents from ineligible clients.

There are three sources relied upon for determining eligibility for legal services and, if needed, obtaining a signed reimbursement contract from the client. These sources are staff in the district offices, contract attorneys, and judicial system staff. The Department is dependent upon those sources and does not yet have complete control over those sources, especially contract attorneys.

Ideally, all clients that are determined to be ineligible for free representation would be noted on the Case Defendant Management System (CDMS), sign a contract, and that contract entered in the accounts receivable system. Other potential causes might be the design of and duplication of information relative to client reimbursement contracts on CDMS and insufficient training on how to enter eligibility information and client reimbursement contract on CDMS.

Effect

Accounts receivable and due to the State General Fund on the Department's agency fund statement of net assets are understated by amounts that cannot be reasonably estimated.

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Schedule of Findings and Responses
June 30, 2013**

2007-1 (Material Weakness) (cont'd)

Accounts Receivable – Agency Fund – Client Reimbursements (cont'd)

Recommendation

We recommend that the Department continue to strengthen the collaboration between the Department and the various courts and its contract attorneys regarding the eligibility process. Specific focus areas are: 1) potential for standardizing the eligibility process, including procedures, forms and document flow, and 2) the client reimbursement process. Additionally, we recommend that the Department continue to refine procedures to assure that all cases/clients of the CDMS system that are not eligible for free services are investigated to determine if they should be set up in the accounts receivable system.

Planned Corrective Actions

“In the fiscal year 2014 appropriation process, the department was granted two (2) additional eligibility clerk positions to provide eligibility determinations in San Miguel and Valencia counties and reclassified an existing position to conduct eligibility screenings in Sandoval County. These clerks will conduct eligibility interviews currently conducted by court staff due to the lack of a Public Defender office in those counties/districts. New eligibility clerks are in the process of being hired and/or trained in the department’s eligibility procedures and the weekly contract reimbursement reporting procedures. This will ensure that clients who do not qualify, sign reimbursement contracts and contracts are filed in the administrative office. The department’s fiscal office can then establish a receivable and provide documentation and proof that all non-eligible clients sign contracts and our accounting system reflects those receivables. This will have a definite positive impact on the department’s eligibility process and moving towards a resolution to this audit finding and qualification.”

**STATE OF NEW MEXICO
PUBLIC DEFENDER DEPARTMENT**

**Exit Conference
June 30, 2013**

Financial Statement Presentation

The financial statements and notes to the financial statements were prepared by the independent certified public accountants performing the audit. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that the records are current and in balance. Management has reviewed and approved the financial statements and notes to the financial statements.

* * * * *

EXIT CONFERENCE

The financial statements and the auditors' reports were discussed at an exit conference held on November 6, 2013 with the following in attendance:

Public Defender Department

Ben Baur, Acting Chief Public Defender
Jorge Alvarado, Appointed Chief Public Defender, effective November 16, 2013
Sarah Peterson, CFO
Rhonda Sanchez, Director of Fiscal Services

Audit Firm

James R. (Jim) Macias, CPA