

**STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT**

Annual Financial Report  
For the Year Ended June 30, 2012  
(With Independent Auditor's Report Thereon)

INTRODUCTORY SECTION.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
June 30, 2012

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INDIAN AFFAIRS DEPARTMENT  
June 30, 2012

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STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Official Roster  
as of June 30, 2012

ADMINISTRATIVE OFFICIALS

Arthur Allison	Cabinet Secretary
Duane Duffy	Deputy Cabinet Secretary
Lillian Brooks	ASD Director

ADVISORY BOARD

No Appointed Board as of December 20, 2010

FINANCIAL SECTION

## INDEPENDENT AUDITORS' REPORT

Mr. Arthur Allison, Cabinet Secretary  
State of New Mexico, Indian Affairs Department  
and

Mr. Hector H. Balderas, State Auditor  
New Mexico Office of the State Auditor  
Santa Fe, New Mexico

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

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

Management was unable to reconcile the revenues and the related expenditures for fiscal year 2012 in State of New Mexico Statewide Human Resource, Accounting, and Management Reporting System (SHARE) funds 10100, 42900, and 89200 in accordance with state accounting procedures for accounting for severance tax bonds. The Department did not have a process in place during the fiscal year ending June 30, 2012 that would enable them to record all the expenditures and related accruals that were associated with the corresponding project's revenues that occurred during the year. This resulted in revenues exceeding expenditures in these funds by \$1,498,683.

Management has been unable to identify certain amounts recorded as due from other agencies and consequently has been unable to collect these amounts. These amounts have remained on the books since 2008 and are as follows: SHARE fund 10000 – Due from other agencies \$87,828; SHARE fund 09900 – Due from other agencies \$68,221. It is undetermined as of June 30, 2012 if these are

realizable assets.

SHARE fund 10000 does not appear to have adequate resources to settle its existing obligations. At June 30, 2012, liabilities exceeded assets by approximately \$613,615. The agency is currently working with the legislative finance committee to receive a deficiency appropriation but as of June 30, 2012 has not yet received this funding.

Cash balances have not been reconciled or monitored closely by the agency in fiscal year 2012, and the accuracy of the balances cannot be determined with any certainty. The beginning cash balance in the general fund (04800) required an adjustment in the amount of \$28,225 as it did not agree with the prior year audited balance. In addition, the Department of Finance and Administration (DFA) has issued a directive notifying agencies that cash balances in SHARE have not been reconciled for several years.

In our opinion, except for the unreconciled severance tax bond activity for the SHARE funds 10100, 42900, and 89200, the unidentified due from other agencies, and the deficit fund balance in SHARE fund 10000 described in the preceding paragraphs, 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the Department as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for all nonmajor funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

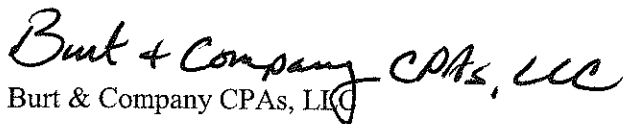
In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2013 on our consideration of the *Department's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Burt & Company CPAs, LLC

May 14, 2013

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Management's Discussion and Analysis  
June 30, 2012

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and a section that presents combining statements for non-major governmental funds. The basic financial statements include two kinds of statements that present different views of the Indian Affairs Department (Department or IAD).

- 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. In addition to these required elements, we have included a section with combining statements that provides details about our non-major governmental funds, each of which are added together and presented in single columns in the basic financial statements.

## **REPORTING ON THE DEPARTMENT AS A WHOLE**

### **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 Assets includes all of the Department'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 assets and how they have changed. Net assets — 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 assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Department, additional non-financial factors such as changes in the Department's funding or the addition of new programs should be considered.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Management's Discussion and Analysis (continued)  
June 30, 2012

**Reporting on the Department's Most Significant Funds**

**Fund Financial Statements**

The fund financial statements provide more detailed information about the Department's most significant funds. 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. The State Legislature also establishes other funds to control and manage money for particular purposes or to show that it is properly using certain grants or appropriations. The Department's funds are all governmental funds. The Balance Sheets and the Statements of Revenue, Expenditures and Changes in Fund Balances provide this information.

**Governmental Funds** — All of the Department's basic services are accounted for 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. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent pages that explain the relationships (or differences) between them.

The Department maintains its fund structure in the State of New Mexico's Statewide Human Resources, Accounting and Management Reporting (SHARE) System. The Department maintains the General Fund (Fund No. 04800) and eight (8) special revenue funds as follows:

- Special Capital Outlay Fund (Fund No. 09900)
- Special Capital Outlay Fund (Fund No. 10000)
- Special Capital Outlay Fund (Fund No. 10100)
- Special Tribal Infrastructure Capital Projects Fund (Fund No. 42900)
- Special Capital Outlay Fund (Fund No. 53100)
- Special IAD Grant Fund (Fund No. 66700)
- STB Reauthorization Fund (Fund No. 89200)
- GF Reauthorization Fund (Fund No. 93100)

**Financial Analysis of the Department as a Whole**

**Statement of Net Assets**

A decrease in the amount of active capital appropriations statewide resulted in less funding for the Department, while expenditures/disbursements to existing projects decreased proportionately.

The statement of net assets summarizes the Department's net assets for the fiscal year ending June 30, 2012. The following compares the current year with the prior year.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Management's Discussion and Analysis (continued)  
June 30, 2012

		<u>Net Assets</u>		<u>Governmental Activities</u>
		<u>FY2012</u>	<u>FY2011</u>	<u>Increase (Decrease)</u>
<u>Assets</u>				
Current assets	\$	7,309,398	8,932,712	(1,623,314)
Capital assets, net		<u>37,368</u>	<u>50,020</u>	<u>(12,652)</u>
Total assets		<u>7,346,766</u>	<u>8,982,732</u>	<u>(1,635,966)</u>
<u>Liabilities</u>				
Current liabilities		7,763,347	8,699,164	(935,817)
Long-term liabilities		-	-	-
Total liabilities		<u>7,763,347</u>	<u>8,699,164</u>	<u>(935,817)</u>
<u>Net Assets</u>				
Investment in capital assets		37,368	50,020	(12,652)
Restricted		-	226,391	(226,391)
Unrestricted (deficit)		<u>(453,949)</u>	<u>7,157</u>	<u>(461,106)</u>
Total net assets	\$	<u>(416,581)</u>	<u>283,568</u>	<u>(700,149)</u>

**Analysis of Financial Position (Statement of Net Assets)**

Current assets decreased by \$1,623,314, or 18% from a year ago. This is mainly attributable to the decrease in cash received from the Board of Finance due to a decrease in reauthorized projects and the depletion of cash through project expenditures in fund 10000.

Current liabilities decreased by \$935,817 or 11% from a year ago. This is mainly attributable to the decrease in accounts payable of \$1,717,674, payment on capital expenditures for funds 10100 and 42900. Current liabilities of \$7,763,347 consist primarily of accounts payable \$3,264,491, due to the State General Fund \$1,093,694 and a bank overdraft of \$2,875,776.

Net assets decreased significantly by \$700,149 from \$283,568 to \$(416,581). This is a result of an increase in cash disbursements for capital outlay projects in funds 10100 and 42900.

**Changes in Net Assets**

The statement of activities summarizes the Department's changes in net assets for the fiscal year ending June 30, 2012 and June 30, 2011.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Management's Discussion and Analysis (continued)  
June 30, 2012

	FY2012	FY2011	Increase (Decrease)
Program revenues:			
Federal grants	\$ -	-	-
Private gifts and grants	<u>85,720</u>	<u>55,636</u>	<u>30,084</u>
Total program and revenues	<u>85,720</u>	<u>55,636</u>	<u>30,084</u>
General revenues and transfers:			
Transfers:			
State general fund appropriations (net of reversions)	2,400,123	2,970,700	(570,577)
Severance tax bond appropriations (net of reversions)	6,028,259	10,309,165	(4,280,906)
Other appropriations	-	-	-
Other	<u>254,207</u>	<u>253,699</u>	<u>508</u>
Total general revenues and transfers	<u>8,682,589</u>	<u>13,533,564</u>	<u>(4,850,975)</u>
Total program, general revenue and transfers	<u>8,768,309</u>	<u>13,589,200</u>	<u>(4,820,891)</u>
Expenses:			
General government	<u>9,468,458</u>	<u>18,535,017</u>	<u>(9,066,559)</u>
Changes in net assets	<u>(700,149)</u>	<u>(4,945,817)</u>	<u>4,245,668</u>
Beginning net assets, (as reported)	283,568	5,246,435	(4,962,867)
Restatement of net assets	<u>-</u>	<u>(17,050)</u>	<u>17,050</u>
Beginning net assets, as restated	<u>283,568</u>	<u>5,229,385</u>	<u>(4,945,817)</u>
Ending net assets	<u>\$ (416,581)</u>	<u>283,568</u>	<u>(700,149)</u>

The Department's governmental activities program revenue has improved from a year ago and increased by \$30,084, from \$55,636 to \$85,720.

The Department's general revenue and transfers decreased by \$4,850,975 or 36%. The reason for the significant decrease in amount is attributed to a decrease in bond sales and a decrease in the general operating budget. The cost of governmental activities this year was \$9,468,458 compared to \$18,535,017 last year resulting in a significant decrease in the amount of \$9,066,559. This is a result of activity in funds 10100 and 42900 and the closing of various capital outlay and tribal infrastructure fund projects during the fiscal year.

In summary, net assets decreased significantly by \$700,149 as a result of the aforementioned items.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Management's Discussion and Analysis (continued)  
June 30, 2012

**THE DEPARTMENT'S FUNDS**

**Governmental Funds**

The focus of the Department's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. As mentioned previously, funds are used by the Department to keep track of specific sources of funding and spending for a particular purpose.

For the current year, the Department had nine governmental funds. Seven of the Department's governmental funds are used to account for the capital outlay projects and the Tribal Infrastructure fund projects for 22 Native American Tribes and Pueblos of the State of New Mexico funded by the State Legislature, the Severance Tax bonds and the General Obligation bonds. One of the Department's governmental funds is used to account for specific private gifts and grants. The final governmental fund of the Department is its General Operating fund.

As the Department completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined negative fund balance amount of \$428,478 which is significantly lower than last year's combined fund balance of \$246,172. The primary reason for the negative fund balance in the amount of \$428,478 is mainly attributable to the increase in activity in several capital outlay projects - special revenue funds, specifically fund 10000 and 10100.

The General Fund of the Department reflects no change in fund balance from the prior year. Since the General Fund is a "reverting" fund, only balances appropriated into future fiscal years may be retained by the Department. The Department reverted \$696,455 to the State General Fund from unused State General Fund appropriations, compared to \$633,782 in the prior year. Both revenues and expenditures decreased due to less funding availability compared to the prior year.

**General Fund Budgetary Highlights**

The State Legislature makes annual appropriations to the Department. Adjustments to the budget require approval by the Budget Division of the Department of Finance and Administration. During the fiscal year, the Department did not require a budget revision or an adjustment.

**Analysis of Significant Budget Variations**

The original General Fund budget was \$2,724,200. There were no budget increases and budget adjustments were not necessary. The final operating budget for the general funding remained at \$2,724,200.

**Capital Assets and Debt Administration**

**Capital Assets**

The Department's investments in capital assets for its governmental activities as of June 30, 2012 amounted to \$37,368 (net of accumulated depreciation). This investment in capital assets consists mainly of furniture, fixtures, data processing equipment and automobiles. There were no additions of

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Management's Discussion and Analysis (continued)  
June 30, 2012

capital assets during the fiscal year. However, the Department had capital assets deletions in the amount of \$3,989 during the fiscal year.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Regarding the FY 2013 budget request, the IAD Administrative Services Director (ASD) worked with the Cabinet Secretary and the various staff to compile the FY 2013 General Fund operating budget and other related budgets and appropriation requests. The proposed budget and appropriations request was submitted to DFA on September 1, 2012. The Department's Cabinet Secretary and Chief Financial Officer and staff provided testimony on the FY 2013 budget request on October 24, 2012 to the Legislative Finance Committee.

The Executive Budget proposal request was equivalent to the FY 2013 operating budget. The appropriation amount for the Tobacco Settlement Program Fund regarding the tobacco cessation and prevention programs for Native American communities will remain consistent to the amount in the prior year.

In accordance with the State Procurement Code and 2.2.2 NMAC "Requirements for Contracting and Conducting Audits of Agencies" the Department engaged Burt & Company, CPAs to perform the annual financial audit for FY 2012. The financial audit report is designed to provide citizens and taxpayers of New Mexico with a general overview of the Department's revenues and expenditures to demonstrate the Department's accountability for the money it receives and expends. The audit process involved the preparation of supporting documentation such as the A611 – trial balance, personnel liability reports and numerous accounting records from the fiscal year. The CFO and Department staff assisted the CPA with providing random selection testing information and preparation of financial documents. The Department received a Qualified Opinion for their FY 2011 financial audit report. It is the Department's responsibility to submit the current fiscal year audit to the State Auditor's office by the extended date of May 16, 2013. The reason for this year's late audit is due to the turnover in key personnel and the financial reporting and recording conditions.

**Contacting the Department's Financial Management**

This financial report is designed to provide our citizens and taxpayers 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.

Indian Affairs Department  
Wendell Chino Building  
1220 South St. Francis Drive  
Santa Fe, NM 87505

## BASIC FINANCIAL STATEMENTS



STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Statement of Net Assets  
June 30, 2012

	<u>Governmental Activities</u>
Assets:	
Current assets:	
Investment in the State Treasurer General Fund Investment Pool	\$ 4,347,739
Due from other agencies	<u>2,961,659</u>
Total current assets	7,309,398
Non-current assets:	
Capital assets (net of accumulated depreciation)	<u>37,368</u>
Total assets	\$ <u><u>7,346,766</u></u>
Liabilities:	
Current liabilities:	
Accounts payable	\$ 3,264,491
Bank overdraft	2,875,776
Accrued salaries payable	7,640
Payroll taxes payable	10,110
Payroll benefits payable	12,287
Due to State General Fund	1,093,694
Due to other state agencies	426,319
Other liabilities	11,530
Deferred revenue	36,029
Compensated absences - current	<u>25,471</u>
Total current liabilities	7,763,347
Net Assets:	
Invested in capital assets	37,368
Unrestricted	<u>(453,949)</u>
Total net assets	\$ <u><u>(416,581)</u></u>

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

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Statement of Activities  
For the Year Ended June 30, 2012

	<u>Governmental Activities</u>
Expenses:	
Governmental activities:	
General government	\$ 9,455,806
Depreciation	<u>12,652</u>
Total expenses	9,468,458
 Program revenues:	
Private gifts and grants	<u>85,720</u>
Total program revenues	<u>85,720</u>
Net program (expenses) revenues	<u>(9,382,738)</u>
 General revenues and transfers:	
Transfers:	
State General Fund appropriation	2,400,123
Severance tax bond appropriation	6,769,838
Other appropriations - tobacco settlement funds	254,207
Reversions to State General Fund - FY 2009	<u>(741,579)</u>
Total general revenues and transfers	<u>8,682,589</u>
 Change in net assets	(700,149)
Net assets, beginning	<u>283,568</u>
Net assets, ending	\$ <u>(416,581)</u>

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

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Balance Sheet  
Governmental Funds  
June 30, 2012

	Major Funds					Non-Major Funds	Total Govern- mental Funds
	General Fund 04800	Special Capital Outlay Fund 10000	Special Capital Outlay Fund 10100	Tribal Infra- structure Capital Fund 42900	STB Reauthor- ization Fund 89200	Other Govern- mental Funds	
<b>Assets</b>							
Investment in the State Treasurer							
General Fund investment pool	\$ 3,361,260	87,181	-	278,307	-	620,991	4,347,739
Due from other funds	37,875	-	50,586	58,286	-	13,315	160,062
Due from other state agencies	-	87,828	457,428	1,359,314	988,868	68,221	2,961,659
Total assets	<u>\$ 3,399,135</u>	<u>175,009</u>	<u>508,014</u>	<u>1,695,907</u>	<u>988,868</u>	<u>702,527</u>	<u>7,469,460</u>
<b>Liabilities</b>							
Accounts payable	\$ 599,986	249,465	301,739	1,185,500	891,373	36,428	3,264,491
Bank overdraft	1,877,344	-	831,781	-	97,495	69,156	2,875,776
Accrued salaries payable	7,640	-	-	-	-	-	7,640
Payroll taxes payable	10,110	-	-	-	-	-	10,110
Payroll benefits payable	12,287	-	-	-	-	-	12,287
Deferred revenue	-	-	-	-	-	36,029	36,029
Other liabilities	11,531	-	-	-	-	-	11,531
Due to other funds	-	109,996	37,191	-	-	12,875	160,062
Due to State General Fund	880,237	212,248	-	-	-	1,210	1,093,695
Due to other state agencies	-	-	88,487	337,830	-	-	426,317
Total liabilities	<u>3,399,135</u>	<u>571,709</u>	<u>1,259,198</u>	<u>1,523,330</u>	<u>988,868</u>	<u>155,698</u>	<u>7,897,938</u>
<b>Fund Balances</b>							
Restricted	-	-	-	172,577	-	539,672	712,249
Unassigned	-	(396,700)	(751,184)	-	-	7,157	(1,140,727)
Total fund balances	<u>-</u>	<u>(396,700)</u>	<u>(751,184)</u>	<u>172,577</u>	<u>-</u>	<u>546,829</u>	<u>(428,478)</u>
Total liabilities and fund balances	<u>\$ 3,399,135</u>	<u>175,009</u>	<u>508,014</u>	<u>1,695,907</u>	<u>988,868</u>	<u>702,527</u>	<u>7,469,460</u>

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

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Reconciliation of the Governmental Funds Balance Sheet to the  
Government-Wide Statement of Net Assets  
June 30, 2012

Total fund balance for the governmental funds (balance sheet)	\$	(428,478)
Amounts reported for governmental activities in the statement of net assets are different because:		
<p style="margin-left: 40px;">Capital assets and related accumulated depreciation used in governmental activities are not current financial resources and, therefore, are not reported in funds.</p>		
<p style="margin-left: 40px;">These assets consist of:</p>		
Furniture and fixtures	\$	63,122
Equipment and machinery		28,300
Data processing equipment		19,279
Automobiles		85,561
Accumulated depreciation		<u>(158,894)</u>
		37,368
<p style="margin-left: 40px;">Compensated absences are not due and payable in the current period, and therefore, are not reported in the funds.</p>		
		<u>(25,471)</u>
Net assets of governmental activities (statement of net assets)	\$	<u>(416,581)</u>

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

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2012

	Major Funds					Non-Major	Total
	General Fund 04800	Special Capital Outlay Fund 10000	Special Capital Outlay Fund 10100	Tribal Infrastruc- ture Capital Fund 42900	STB Reauthori- zation Fund 89200	Other Govern- mental Funds	
Revenues:							
Intergovernmental:							
Private gifts and grants	\$ -	-	-	-	-	85,720	85,720
Expenditures:							
General government:							
Current:							
Personal services	708,732	-	-	-	-	-	708,732
Contractual services	312,511	-	-	-	-	31,829	344,340
Other costs	936,632	461,130	1,504,392	3,576,058	1,689,387	222,287	8,389,886
Capital outlay	-	-	-	-	-	-	-
Total expenditures	1,957,875	461,130	1,504,392	3,576,058	1,689,387	254,116	9,442,958
Excess (deficiency) of revenues over expenditures	(1,957,875)	(461,130)	(1,504,392)	(3,576,058)	(1,689,387)	(168,396)	(9,357,238)
Other financing sources (uses):							
Transfers in (out):							
State General Fund appropriation	2,400,123	-	-	-	-	-	2,400,123
Severance tax bond appropriation	-	-	1,504,392	3,576,058	1,689,387	-	6,769,837
Other appropriations - tobacco settlement funds	254,207	-	-	-	-	-	254,207
Reversion to State General Fund	(696,455)	(45,124)	-	-	-	-	(741,579)
Total other financing sources (uses)	1,957,875	(45,124)	1,504,392	3,576,058	1,689,387	-	8,682,588
Net change in fund balances	-	(506,254)	-	-	-	(168,396)	(674,650)
Fund balances:							
Fund balances, beginning, as previously stated	-	109,554	(751,184)	172,577	-	715,225	246,172
Fund balances, ending	\$ -	(396,700)	(751,184)	172,577	-	546,829	(428,478)

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

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2012

Net change in fund balance - Governmental Funds (Statement of Revenues, Expenditures and Changes in Fund Balances)	\$	(674,650)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Decrease in compensated absences		(12,847)
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. This is the amount by which capital asset purchases exceeded depreciation expense in the current period.		
Capital asset purchases	\$	-
Current period depreciation		<u>(12,652)</u>
		<u>(12,652)</u>
Change in net assets of governmental activities (Statement of Activities)	\$	<u>(700,149)</u>

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

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Statement of Revenues and Expenditures  
Budget and Actual (Budgetary Basis)  
General Fund 04800  
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		(Modified Accrual) Actual Budget Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
State General Fund:				
General Fund appropriation	\$ 2,474,900	2,474,900	2,400,100	(74,800)
Other funds:				
Other gifts and grants	-	-	-	-
Other financing sources-transfers	<u>249,300</u>	<u>249,300</u>	<u>254,207</u>	<u>4,907</u>
Total revenues	2,724,200	2,724,200	2,654,307	(69,893)
Prior-year fund balance	<u>-</u>	<u>-</u>		
Total revenues budgeted	\$ <u>2,724,200</u>	<u>2,724,200</u>		
<b>Expenditures:</b>				
General government:				
Personal services and employee benefits	\$ 1,063,900	1,063,900	708,732	355,168
Contractual services	486,900	486,900	312,511	174,389
Other costs	<u>1,173,400</u>	<u>1,173,400</u>	<u>936,632</u>	<u>236,768</u>
Total expenditures	\$ <u>2,724,200</u>	<u>2,724,200</u>	<u>1,957,875</u>	<u>766,325</u>
 Reconciliation of GAAP basis to budgetary basis revenue:				
GAAP basis revenue			\$ 2,654,307	
Adjustments: None			<u>-</u>	
Budget basis revenue			\$ <u>2,654,307</u>	
 Reconciliation of GAAP basis to budgetary basis expenditures:				
GAAP basis expenditures			\$ 1,957,875	
Adjustments:			<u>(19,107)</u>	
Budget basis expenditures			\$ <u>1,938,768</u>	

Note: The attached expenditures on the budgetary basis include \$19,107 of accounts payable that required a request to pay prior year bills out of the FY 2012 budget.

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

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Statement of Revenues and Expenditures  
Budget and Actual (Budgetary Basis) (Multi-Year)  
Major Special Revenue Fund - Special Capital Outlay Fund 10000  
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
<b>Revenues:</b>				
Other funds:				
Other financing sources-transfers	\$ -	-	-	-
Total revenues	-	-	-	-
Prior-year fund balance	<u>109,554</u>	<u>109,554</u>		
Total revenues budgeted	\$ <u>109,554</u>	<u>109,554</u>		
<b>Expenditures:</b>				
General government:				
Other costs	\$ <u>109,554</u>	<u>109,554</u>	<u>461,132</u>	<u>(351,578)</u>
Total expenditures	\$ <u>109,554</u>	<u>109,554</u>	<u>461,132</u>	<u>(351,578)</u>
<b>Reconciliation of GAAP basis to budget basis revenue:</b>				
GAAP basis revenue			\$ -	
Adjustments: None			<u>-</u>	
Budget basis revenue			\$ <u>-</u>	
<b>Reconciliation of GAAP basis to budget basis expenditures:</b>				
GAAP basis expenditures			\$ 461,132	
Adjustments: None			<u>-</u>	
Budget basis expenditures			\$ <u>461,132</u>	

There are 18 Special Capital Outlay Projects summarized in the statement above. During fiscal year ending June 30, 2012, actual expenditures exceeded budgeted expenditures by \$351,578 (See schedule of findings and responses).

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



STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Statement of Revenues and Expenditures  
Budget and Actual (Budgetary Basis) (Multi-Year)  
Major Special Revenue Fund - Special Capital Outlay Fund 10100  
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavorable)	
	<u>Original</u>	<u>Final</u>			
Revenues:					
Other funds:					
Severance tax bond appropriations	\$	<u>2,151,015</u>	<u>2,151,015</u>	<u>1,504,392</u>	<u>(646,623)</u>
Total revenues		<u>2,151,015</u>	<u>2,151,015</u>	<u>1,504,392</u>	<u>(646,623)</u>
Prior-year fund balance		<u>(751,184)</u>	<u>(751,184)</u>		
Total revenues budgeted	\$	<u>1,399,831</u>	<u>1,399,831</u>		
Expenditures:					
General government:					
Other costs	\$	<u>1,399,831</u>	<u>1,399,831</u>	<u>1,504,392</u>	<u>(104,561)</u>
Total expenditures	\$	<u>1,399,831</u>	<u>1,399,831</u>	<u>1,504,392</u>	<u>(104,561)</u>
Reconciliation of GAAP basis to budget basis revenue:					
GAAP basis revenue			\$ 1,504,392		
Adjustments: None			<u>-</u>		
Budget basis revenue			\$ <u>1,504,392</u>		
Reconciliation of GAAP basis to budget basis expenditures:					
GAAP basis expenditures			\$ 1,504,392		
Adjustments: None			<u>-</u>		
Budget basis expenditures			\$ <u>1,504,392</u>		

Note: The actual expenditures on the budgetary basis do not include any accounts payable that required a request to pay prior-year bills out of the FY 2012 budget.

There are 4 Special Capital Outlay Projects summarized in the statement above.

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

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Statement of Revenues and Expenditures  
Budget and Actual (Budgetary Basis) (Multi-Year)  
Major Special Revenue Fund - Tribal Infrastructure  
Capital Projects Fund 42900  
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
Revenues:				
Other funds:				
Severance tax bond appropriations	\$ 6,230,240	6,230,240	3,576,058	(2,654,182)
Total revenues	6,230,240	6,230,240	<u>3,576,058</u>	<u>(2,654,182)</u>
Prior-year fund balance	<u>172,577</u>	<u>172,577</u>		
Total revenues budgeted	\$ <u>6,402,817</u>	<u>6,402,817</u>		
Expenditures:				
General government:				
Other costs	\$ 6,402,817	6,402,817	3,576,058	2,826,759
Total expenditures	\$ <u>6,402,817</u>	<u>6,402,817</u>	<u>3,576,058</u>	<u>2,826,759</u>
Reconciliation of GAAP basis to budget basis revenue:				
GAAP basis revenue			\$ 3,576,058	
Adjustments: None			<u>-</u>	
Budget basis revenue			\$ <u>3,576,058</u>	
Reconciliation of GAAP basis to budget basis expenditures:				
GAAP basis expenditures			\$ 3,576,058	
Adjustments: None			<u>-</u>	
Budget basis expenditures			\$ <u>3,576,058</u>	

Note: The actual expenditures on the budgetary basis do not include any accounts payable that required a request to pay prior-year bills out of the FY 2012 budget.

There are 19 Capital Projects summarized in the statement above; the fund did not have any open projects at year end.

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

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Statement of Revenues and Expenditures –  
Budget and Actual (Budgetary Basis) (Multi-Year)  
Major Special Revenue Fund – STB Reauthorization Fund 89200  
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other funds:				
Severance tax bond appropriations	\$ 369,000	369,000	1,689,387	1,320,387
Total revenues	369,000	369,000	<u>1,689,387</u>	<u>1,320,387</u>
Prior-year fund balance	-	-		
Total revenues budgeted	\$ <u>369,000</u>	<u>369,000</u>		
Expenditures:				
General government:				
Other costs	\$ 369,000	369,000	1,689,387	(1,320,387)
Total expenditures	\$ <u>369,000</u>	<u>369,000</u>	<u>1,689,387</u>	<u>(1,320,387)</u>
Reconciliation of GAAP basis to budget basis revenue:				
GAAP basis revenue			\$ 1,689,387	
Adjustments: None			-	
Budget basis revenue			<u>\$ 1,689,387</u>	
Reconciliation of GAAP basis to budget basis expenditures:				
GAAP basis expenditures			\$ 1,689,387	
Adjustments: None			-	
Budget basis expenditures			<u>\$ 1,689,387</u>	

Note: The actual expenditures on the budgetary basis do not include any accounts payable that required a request to pay prior-year bills out of the FY 2012 budget.

There are 5 Capital Projects summarized in the statement above.

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

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements  
June 30, 2012

1. History and Function

The Commission on Indian Affairs was created by statute in 1953 by the New Mexico State Legislature. The statute established a state agency, the Office of Indian Affairs (OIA), which would serve as a vehicle between the State's governor and legislature to the twenty-two separate and distinct tribal groups of New Mexico and from the tribal governments to state government. Executive Order No. 2003-022 was signed on June 20, 2003, elevating the OIA to the Indian Affairs Department (IAD), a cabinet-level department. In 2004, House Bill 39 was passed, establishing the Indian Affairs Department by legislative statute, to be led by a Cabinet Secretary appointed by the Governor with consent of the Senate. The department is the lead coordinating agency for intergovernmental and interagency programs concerning tribal governments and the state.

2. Summary of Significant Accounting Policies

The financial statements of the Indian Affairs Department have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Department applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 to the government-wide financial statements, unless they conflict with GASB pronouncements. The more significant of the Department's accounting policies are described below:

A. Reporting Entity

The Department is a department of the primary government, the State of New Mexico. These financial statements present the financial position and results of operations of only those *Statewide Human Resources, Accounting and Management Reporting System* (SHARE) funds over which the Indian Affairs Department has oversight responsibility. The Department does not have any component units.

The Department is a user organization of the State of New Mexico Statewide Human Resource, Accounting, and Management Reporting System (SHARE). The service organization is the Department of Finance and Administration (DFA).

B. Basic Financial Statements - Government-Wide Statements

The Department's basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements. Both the government-

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

2. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements - Government-Wide Statements (continued)

wide and fund financial statements categorize primary activities as either governmental, business type, or fiduciary. The Department is a single purpose government entity and has no business type activities or fiduciary funds. In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis and are reflected on the full accrual, economic resource basis, which incorporates long-term assets as well as long-term debt and obligations. The Department's net assets are reported in three parts: invested in capital assets, restricted net assets, and unrestricted net assets. When applicable, the effect of inter-fund activity between two funds is removed from the Statement of Net Assets in order to avoid a grossing-up effect on the assets and liabilities within the statement.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (general government), which are otherwise supported by general government revenues. The Statement of Activities reduces gross expense (including depreciation expense on capital assets) by related program revenues, operating and capital grants. Program revenue must be directly associated with the function (general government). Program revenues include: 1) charges to applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. The appropriation from the State General Fund not included among program revenues and is reported instead as general revenue. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB 33. The revenue recognition policy for grants occurs when the eligibility requirements have been met, and costs have been incurred.

The net cost by function is normally covered by general revenue.

The government-wide focus is more on the sustainability of the Department as an entity and the change in the Department's net assets resulting from the current year's activities.

Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the Department would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

2. Summary of Significant Accounting Policies (continued)

C. Basic Financial Statements - Fund Financial Statements

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis is on the major funds of the governmental category. Non-major funds are summarized into a single column. The Department's major funds are the general fund and four special revenue funds (capital outlay funds 10000, 10100, 42900, and 89200).

The governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to 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 activities column of the government-wide presentation.

The financial transactions of the Department are recorded in individual 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 or expenses 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.

All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures of fund liabilities.

The GASB 34 reporting model sets forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combined) for the determination of major funds. The Department, at its discretion, may elect to present a fund as a major fund. The non-

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

2. Summary of Significant Accounting Policies (continued)

C. Basic Financial Statements - Fund Financial Statements (continued)

major funds are combined in a column in the fund financial statements and detailed in the combining section.

The Department uses the following fund types:

General Fund - The General Fund 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 General Fund is made up of the following SHARE fund:

General Operating (Fund 04800) - The operating account for the Department. Except for special appropriations, which may extend into subsequent fiscal years, this is a reverting fund. There were no special appropriations during the fiscal year ending June 30, 2012.

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of specific revenue sources, particularly capital projects, that are legally restricted to expenditures for specified purposes. The Department's Special Revenue Funds are as follows:

Special Capital Outlay Fund (Fund 09900) - This fund is used to account for capital outlay projects appropriated by Laws of 1999. Unexpended funds revert at the end of the authorization period. There was no activity in this fund during the fiscal year ending June 30, 2012; this fund is pending a formal closure as there will be no activity going forward.

Special Capital Outlay Fund (Fund 10000) - This fund is used to account for capital outlay projects appropriated from the state general fund from the Laws of 2004-2011. Unexpended funds revert at the end of the authorization period.

Special Capital Outlay Fund (Fund 10100) - This fund is used to account for capital outlay projects appropriated from severance tax bonds issued from the Laws of 2004-2011. Unexpended funds revert at the end of the authorization period.

Special Tribal Infrastructure Capital Projects (Fund 42900) - This fund was legislatively created by the Laws of 2005 and is used to account for capital outlay projects appropriated from the state general fund and from severance tax bonds (STB) from the Laws of 2007-2011, as well as projects reauthorized from other funds or state agencies. Unexpended funds revert at the end of the authorization period.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

2. Summary of Significant Accounting Policies (continued)

C. Basic Financial Statements - Fund Financial Statements (continued)

Special Capital Outlay Fund (Fund 53100) - This fund is used to account for capital outlay projects appropriated by Laws of 1998. Unexpended funds revert at the end of the authorization period. All projects associated with this fund were closed in fiscal year 2011. There was no activity in this fund in fiscal year 2012 and there are no balances to report. For these reasons, SHARE Fund 53100 is not presented in this report.

Special IAD Grant Fund (Fund 66700) - This fund is used to account for private gifts and grants. Unexpended funds revert at the end of the grant term, unless otherwise authorized, in accordance with the respective granting agency provisions.

STB Reauthorization Fund (Fund 89200) - This fund was established in fiscal year 2011 by Senate bill 373 to administer projects funded by severance tax bonds. Unexpended funds revert at the end of the appropriation period.

General Fund Reauthorization (Fund 93100) - This fund was established in fiscal year 2011 by Senate bill 373 to administer projects funded by general fund appropriations. Unexpended funds revert at the end of the appropriation period.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures 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.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. In the Statement of Activities, internal balances have been eliminated.

The government-wide financial statements are presented on an accrual basis of accounting using an economic resources measurement focus. The governmental funds in the fund financial statements are presented on a modified accrual basis using a current financial resources measurement focus. Internal activity and balances between funds is eliminated in the government-wide presentation.

Under the modified accrual method, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the current fiscal period. Available is defined as soon enough after year end to pay liabilities of the current period.



STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

2. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Contributions and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. Revenues are available if collected within sixty days of the end of the fiscal year. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are accrued as current liabilities, in the government-wide financial statements. Expenditures charged to federal programs are recorded utilizing the cost principles described by the various funding sources.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirement are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

E. Budgets and Budgetary Accounting

The State Legislature makes annual appropriations to the Department for general operating expenses which lapse at fiscal year end. Legal compliance is monitored through the establishment of a budget and a financial control system, which permits a budget-to-actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation program level. Budgeted appropriation program 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 the original and final authorized amounts as legally revised during the year and are presented under the modified accrual basis.

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

1. No later than September 1, the Department prepares a budget request for the subsequent fiscal year by appropriation unit to be presented to the next legislature.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

2. Summary of Significant Accounting Policies (continued)

E. Budgets and Budgetary Accounting (continued)

2. The appropriation request is submitted to the Department of Finance and Administration's Budget Division (DFA) and 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 for approval of the final budget plan.
5. Budgetary control is exercised by the Department at the appropriation unit level. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.
6. The budget for the General Fund and all special revenue funds are adopted on a modified accrual basis of accounting. Per the General Appropriations Act, Laws of 2006, Chapter 109, Section 3, Subsections O and N, the budgetary basis is modified accrual. However, there is a statutory exception. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable require approval to pay prior year bills out of the FY 2012 budget. At June 30, 2012, there was an amount of \$19,107.

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

Budgetary comparison statements for major funds have been included as part of the basic financial statements.

F. Capital Assets

Capital assets of the Department include data processing equipment, furniture and fixtures, equipment and automobiles. Capital assets are defined in Section 12-6-10 NMSA 1978. Per Section 12-6-10 NMSA 1978, items costing more than \$5,000 are

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

2. Summary of Significant Accounting Policies (continued)

F. Capital Assets (continued)

capitalized. Donated capital assets are recorded at estimated fair market value at the date of donation. Computer software which is purchased with data processing computer equipment is included as part of the capitalized computer equipment. The cost of maintenance and repairs that do not add to the asset value or materially extend assets lives are not capitalized. The Department does not undertake major capital projects involving interest costs during the construction phase. There is no debt related to the capital assets. Capital assets of the Department are depreciated using zero salvage value and the straight-line method over the following estimated useful lives:

	Years
Furniture and fixtures	10
Equipment and machinery	5
Automobiles	5
Data processing equipment	3

The Department utilizes facilities and buildings that are owned by the Property Control Division of the State of New Mexico, General Services Department via a space assignment understanding. These assets and the related depreciation expense are not included in the accompanying financial statements. GASB 34 requires the recording and depreciation of infrastructure assets, such as roads, bridges, etc. The Department does not own any infrastructure assets.

G. Accrued Compensated Absences

Qualified employees accumulate annual leave as follows:

Years of Service	Hours Earned Per Month	Days Earned Per Month	Days of Maximum Accrual
1-3	6.16	0.83	30
4-6	7.38	1.00	30
7-10	9.22	1.25	30
11-14	11.08	1.50	30
15th/Beyond	12.30	1.67	30

Thirty days of accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is forfeited. When employees terminate, they are compensated for accumulated annual leave as of the date of termination, up to a maximum of thirty days (240 hours). Accrued annual leave is recorded as a liability in the government-wide financial statements.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

2. Summary of Significant Accounting Policies (continued)

G. Accrued Compensated Absences (continued)

Employees who have over 600 hours of accumulated sick leave can receive payment for hours over 600, up to 120 hours on July 1 or January 1 of each year. However, sick leave is paid at fifty percent of the employee's regular hourly wage. At retirement, employees can receive fifty percent payment for up to 400 hours for the hours over 600 hours of accumulated sick leave. Therefore, the only leave which has been accrued represents the hours earned at June 30, 2012, over 600 hours up to 120 hours per employee. Expenditures for accumulated sick pay for hours under 600 hours will be recognized as employees take such absences. Accrued vested sick pay is recorded as a liability in the government-wide financial statements.

Fair Labor Standards Act (FLSA) nonexempt employees accumulate compensatory time at the rate of 1.5 times the number of hours worked, in excess of forty hours per week, based on their regular hourly rate. Exempt and classified employees who are FLSA exempt accumulate compensatory time at the same rate as the number of hours worked. Overtime must be pre-approved by management. Payment of this liability can be made by compensated leave time or cash payment.

In accordance with GASB 16, accrued compensated absences consist of accumulated annual leave, sick leave between 600 and 720 hours, and compensatory leave for employees, including the related employers' matching FICA and Medicare payroll taxes.

H. Fund Balance Classifications

Fund balances in the governmental fund statements are classified as follows:

Restricted – amounts that have constraints placed on the use of the resources either by external sources such as creditors, grantors, contributors, laws or regulations, or by enabling legislation.

Committed – amounts that have constraints placed on the use of the resources by formal action of the government's highest level of decision making authority, which is the Advisory Board (p. iv). The board does not actively exercise the authority to make internal commitments.

Assigned – amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed; these assignments would be exercised by the Advisory Board if there was need to do so.

Unassigned – represents amounts that do not meet the definition of restricted, committed, or assigned.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

2. Summary of Significant Accounting Policies (continued)

H. Fund Balance Classifications (continued)

The agency has not developed an internal policy to determine whether amounts expended are considered to have been spent from committed, assigned, or unassigned fund balances when amounts from any of these fund balance types are available.

During the year ended June 30, 2012, SHARE fund 10100 reported a deficit fund balance which resulted from expenditures exceeding recognized revenue.

I. Net Assets

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as investments in capital assets, restricted and unrestricted.

Investment in Capital Assets - Is intended to reflect the portion of net assets which are associated with non-liquid, capital assets, which amounted to \$37,368 for fiscal year ending June 30, 2012.

Restricted Assets - are liquid assets (generated from revenues and bond proceeds appropriations), which have third-party (statutory enabling legislation or granting agency) limitation on their use, and which are legally enforceable as to their use. Restricted assets amounted to \$(461,106) for fiscal year ending June 30, 2012.

Unrestricted Assets - represent unrestricted liquid assets. Unrestricted net assets for fiscal year ending June 30, 2012, amount to \$7,157, which represents unassigned amounts held in fund 66700.

The Department allocates expenses to restricted or unrestricted resources based on the budgeted source of funds.

J. Use of Estimates

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

3. Cash and Collateral

Cash accounts on deposit with the State Treasurer in the General Fund Investment Pool consist of the following:

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

3. Cash and Collateral (continued)

SHARE Account Number	Account Name	Balance Per Treasurer	Balance Per Books
04800	NM Office of Indian Affairs	\$ 3,361,260	3,361,260
10000	IAD Capital Projects-General Fund	87,181	87,181
42900	Tribal Infrastructure Fund	278,307	278,307
93100	General Fund Reauthorization Fund	540,882	540,882
66700	Grants for IAD	80,109	80,109
		\$ 4,347,739	4,347,739

Cash accounts on deposit with the New Mexico State Treasurer do not require collateral to be pledged because they are deposits with another governmental entity. The Department is not authorized to make investments. However, certain cash accounts are authorized to earn interest and are deposited by DFA into the New Mexico State Treasurer's Office Interest Bearing Pool. The pool invests in repurchase agreements secured at 102% by U.S. Treasury notes and bills, certificates of deposit, and other interest bearing instruments. Because all monies are held by another governmental entity, Governmental Accounting Standards Board Statement #3, "Deposit with Financial Institutions Investments (Including Repurchase Agreements)," and "Reverse Purchase Agreements" is not applicable. Deposits do not have to be classified according to custodial credit risk.

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. The State Treasurer with the advice and consent of the state board of finance can invest money held in demand deposits and investments not immediately needed for the operation of state government in:

- A. Securities issued by the United States (U.S.) government or by its departments or agencies and direct obligations of the U.S. or are backed by the full faith and credit of the U.S. government or agencies sponsored by the U.S. government;
- B. Contracts for the present purchase and resale at a specified time in the future, not to exceed one year or, in the case of bond proceeds appropriations, not to exceed three years, of specific securities at specified prices at a price differential representing the interest income to be earned by the state. No such contract shall be invested in unless the contract is fully secured by obligations of the United States or other securities backed by the United States having a market value of at least one hundred two percent of the amount of the contract;
- C. Contracts for the temporary exchange of state-owned securities for the use of broker-dealers, banks or other recognized institutional investors in securities, for periods not to exceed one year for a specified fee rate. No such contract shall be invested in un-

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

3. Cash and Collateral (continued)

less the contract is fully secured by exchange of an irrevocable letter of credit running to the state, cash or equivalent collateral of at least one hundred two percent of the market value of the securities plus accrued interest temporarily exchanged. The collateral required for either of the forms of investment in sections (b) and (c) shall be delivered to the fiscal agent of New Mexico or its designee contemporaneously with the transfer of funds or delivery of the securities at the earliest time industry practice permits, but in all cases, settlement shall be on the same-day basis. Neither of the contracts in (b) or (c) shall be invested in unless the contracting bank, brokerage firm or recognized institutional investor has a net worth in excess of five hundred million dollars;

- D. Any of the following investments in an amount not to exceed forty percent of any fund that the state treasurer invests: (1) commercial paper rated "prime" quality by a national rating service, issued by corporations organized and operating within the U.S.; (2) medium-term notes and corporate notes with a maturity not exceeding five years that are rated A or its equivalent or better by a nationally recognized rating service and that are issued by a corporation organized and operating in the U.S.; or (3) an asset-backed obligation with a maturity not exceeding five years that is rated AAA or its equivalent by a nationally recognized rating service;
- E. Shares of a diversified investment company registered pursuant to the federal Investment Company Act of 1940 that invests in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b), and (d) above provided that the investment company has total assets under management of at least one billion dollars and the investments made by the State Treasurer pursuant to this paragraph are less than five percent of the assets of the investment company; or
- F. Individual, common or collective trust funds of banks or trust companies that invest in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b), and (d) above provided that the investment manager has assets under management of at least one billion dollars and the investments made by the state treasurer pursuant to this paragraph are less than five percent of the assets of the individual, common or collective trust fund.

No public funds can be invested in negotiable securities or loans to financial institutions fully secured by negotiable securities at current market value shall be paid out unless there is a contemporaneous transfer of the securities at the earliest time industry practice permits, but in all cases, settlement shall be on a same-day basis either by physical delivery or, in the case of uncertificated securities, by appropriate book entry on the books of the issuer, to the purchaser or to a reputable third-party safekeeping financial institution acting as agent or trustee for the purchaser, which agent or trustee shall furnish timely confirmation to the purchaser.

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

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

4. General Fund Investment Pool Not Reconciled

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

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

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

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

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. Management believes that these changes will allow for the completion of a timely and accurate reconciliation on a *point-forward basis only*. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items.

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

At year end, the Department had deficit cash balances of \$2,875,776.



STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

5. Interest in the General Fund Investment Pool

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

At June 30, 2012 the Department had the following invested in the General Fund Investment Pool: General Fund Investment Pool \$4,347,739

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

Credit Risk - The New Mexico State Treasurer pools are not rated. For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2012.

6. Due From/To Other State Agencies

The following are short-term amounts owed between other state agencies and are classified as follows:

	<u>Purpose</u>	<u>Due From</u>	<u>Due To</u>
<u>Fund 09900 - Capital Outlay Fund</u>			
DFA/BOF 34100/01900	Severance tax bond proceeds	\$ 68,221	-
<u>Fund 10000 - Special Capital Outlay Fund</u>			
DFA/BOF 34100/01900	Severance tax bond proceeds	87,828	-
<u>Fund 89200 - STB Reauthorization Fund</u>			
DFA/BOF 34100/01900	Severance tax bond proceeds	988,868	-
<u>Fund 42900 - Tribal Infrastructure Fund</u>			
DFA 36900/85300	Reversion to State General Fund for closed capital outlay projects	-	337,830
	Severance tax bond proceeds	1,359,314	-
<u>Fund 10100 - Special Capital Outlay Fund</u>			
DFA/BOF 34100/01900	Severance tax bond proceeds	457,428	-
	Refund overpaid capital outlay projects from FYs 2007-2012	-	88,487
		<u>\$ 2,961,659</u>	<u>426,317</u>

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

6. Due From/To Other State Agencies (continued)

All balances due from other State Agencies are deemed to be fully collectible; no allowance for uncollectible amounts has been established.

7. Capital Assets

The capital asset activity for the governmental activities for the year ended June 30, 2012, is as follows:

	Governmental Activities			Ending Balance June 30, 2012
	Beginning Balance July 1, 2011	Additions	Deletions	
<b>Cost</b>				
Furniture and fixtures	\$ 67,111	-	(3,989)	63,122
Equipment and machinery	28,300	-	-	28,300
Data processing equipment	19,279	-	-	19,279
Automobiles	85,561	-	-	85,561
Total capital assets	<u>200,251</u>	<u>-</u>	<u>(3,989)</u>	<u>196,262</u>
<b>Accumulated depreciation</b>				
Furniture and fixtures	(36,067)	(6,312)	3,989	(38,390)
Equipment and machinery	(23,844)	(1,500)	-	(25,344)
Data processing equipment	(19,280)	-	-	(19,280)
Automobiles	(71,040)	(4,840)	-	(75,880)
Total accumulated depreciation	<u>(150,231)</u>	<u>(12,652)</u>	<u>3,989</u>	<u>(158,894)</u>
Net assets	<u>\$ 50,020</u>	<u>(12,652)</u>	<u>-</u>	<u>37,368</u>

The Department does not have any debt related to capital assets. Depreciation expense for the year was \$12,652.

8. Compensated Absences Payable

Employees are entitled to accumulate annual leave at a graduated rate based on years of service. In addition, employees may accumulate sick leave and compensatory leave. A maximum of 240 hours (30 days of annual leave) can be carried forward at calendar year end. The Department has recognized a liability of \$25,471 in the Statement of Net Assets for compensated absences based on current pay rates and hours accumulated at June 30, 2012.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

8. Compensated Absences Payable (continued)

A summary of changes in the compensated absences payable for the year ended June 30, 2012, is as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012	Current Portion
Current compensated absences payable	\$ 12,624	29,350	(16,503)	25,471	25,471

Compensated absences are usually paid with state general fund appropriations out of the General Fund, SHARE Fund 04800. The Department considers the compensated absence balances to be a current liability on the statement of net assets.

9. Reversions - Due to State General Fund

Unexpended cash balances at year end of State General Fund monies appropriated to the Department are reverted to the State General Fund, unless otherwise specified in the appropriation language.

The General Fund 04800 receives a State General Fund appropriation annually. Any unexpended funds at the end of the year revert to the State General Fund. In 2012, the Department was appropriated \$254,207 from the tobacco settlement fund in addition to the general fund appropriation of \$2,400,100. The Indian Affairs Department did not receive a Compensation Package in FY2012. The Department also, did not receive special appropriations in FY2012. Any other revenue received in the fund, which is not specifically appropriated by the legislature, also reverts to the State General Fund.

	<u>General Fund</u>
Cash on deposit, June 30, 2012	\$ 1,483,916
Add: due from other funds	37,875
Add: due from other state agencies (DFA Central Payroll)	-
Less: accounts payable	(599,986)
Less: accrued salaries payable	(7,640)
Less: payroll taxes payable	(12,287)
Less: payroll benefits payable	(10,110)
Less: prior year reversions due to SGF	(183,782)
Less: other liabilities	<u>(11,531)</u>
Due to State General Fund	\$ <u>696,455</u>

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

9. Reversions - Due to State General Fund (continued)

Source of reversions amounts to budget fiscal year are as follows:

Budget fiscal year ended:	
June 30, 2011	\$ 183,782
June 30, 2012	<u>696,455</u>
	<u>\$ 880,237</u>

The Department intends to revert the funds within the 45 day period after the audit to remain in compliance with statutory requirements.

10. Restricted Net Assets/Fund Balances

The government-wide statement of net assets reports \$(453,949) of unrestricted net assets, all of which is restricted by enabling legislation.

11. Accrued Salaries Payable

A portion of payroll expenditures pertaining to the year ended June 30, 2012, was paid on July 1, 2012. Since the disbursements occur subsequent to June 30, 2012, accrued salaries payable totaling \$7,640 has been reflected in the statement of net assets.

12. Pension Plan - Public Employees Retirement Association

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

*Funding Policy* - Plan members are required to contribute 10.67% of their gross salary. The Department is required to contribute 13.34% of the gross covered salary. The contribution requirements of plan members and the Department's 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 ending June 30, 2012, 2011, and 2010 were \$72,011, \$86,887, and \$118,072, respectively, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

13. Post Employment Benefits - State Retiree Health Care Plan

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which 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 postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

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

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

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

13. Post Employment Benefits - State Retiree Health Care Plan (continued)

Fiscal Year	Employer Contribution Rate	Employee Contribution Rate
FY13	2.000%	1.000%

Also, employers joining the program after January 1, 1998 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The Department's contributions to the RHCA for the years ended June 30, 2012, 2011, and 2010 were \$9,870, \$9,527, and \$10,139, respectively, which equal the required contributions for each fiscal year.

14. Due From/To Other Funds

Due from and due to other funds represent interfund receivables and payables arising from interdepartmental transactions. These amounts have been eliminated on the government-wide statement.

	Purpose	Due From	Due To
<u>Fund 04800 - General Fund</u>			
Due from Fund 10100	Expenditure paid out of wrong fund	\$ 25,000	-
Due from Fund 66700	Expenditure paid out of wrong fund	12,875	-
<u>Fund 10000 - Special Capital Outlay Fund</u>			
Due to Fund 42900	Unused State General Fund capital project monies due to Tribal Infrastructure Fund per statute	-	46,095
Due to Fund 10100	Expenditure paid out of wrong fund	-	50,586
Due to Fund 93100	Expenditure paid out of wrong fund	-	13,315
<u>Fund 10100 - Special Capital Outlay Fund</u>			
Due From Fund 10000	Expenditure paid out of wrong fund	50,586	-
Due to Fund 04800	Expenditure paid out of wrong fund	-	25,000
Due to Fund 42900	Expenditure paid out of wrong fund	-	12,191
<u>Fund 42900 - Tribal Infrastructure Fund</u>			
Due from Fund 10000	Unused State General Fund capital project monies due to Tribal Infrastructure Fund per statute	46,095	-
Due from Fund 10100	Expenditure paid out of wrong fund	12,191	-

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

14. Due From/To Other Funds (continued)

	Purpose	Due From	Due To
<u>Fund 66700 - IAD Grant Fund</u>			
Due to Fund 04800	Expenditure paid out of wrong fund	-	12,875
<u>Fund 93100 - GF Reauthorization Fund</u>			
Due from Fund 10000	Expenditure paid out of wrong fund	13,315	-
		\$ 160,062	160,062

15. Transfer In/Out Other Agencies

From Agency/Fund	To Agency/Fund	Purpose	Amount
36900/85300 DFA	60900/04800 IAD	State General Fund Appropriation	\$ 2,400,123
		Other funds - Tobacco Settlement Funds	254,207
60900/04800 IAD	36900/85300 DFA	Reversion to State General Fund	(696,455)
60900/10000 IAD	36900/85300 DFA	Reversion to State General Fund	(45,124)
34100/01900 DFA/BOF	60900/10100 IAD	Bond Proceeds Appropriation - Severance Tax Bonds Project	1,504,392
34100/01900 DFA/BOF	60900/42900 IAD	Bond Proceeds Appropriation - Severance Tax Bonds Project	3,576,058
34100/01900 DFA/BOF	60900/89200 IAD	Bond Proceeds Appropriation - Severance Tax Bonds Project	1,689,387

16. Intergovernmental Agreements

The Department has entered into an Intergovernmental Agreement with each entity who has been awarded funding for capital projects. The Schedule of Capital Projects – Severance Tax Appropriations and General Fund Appropriations provides a schedule of capital projects and the entity’s name. All unexpended balances of general fund capital outlay appropriations are reported in the fund statements as restricted fund balance. Unexpended balances of severance tax bond capital outlay appropriations are not reported in the financial statements as the amounts will be recognized in future periods.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Notes to Financial Statements (continued)  
June 30, 2012

17. Risk Management

The Department obtains coverage through Risk Management Division of the State of New Mexico General Services Department. This coverage includes liability and civil rights, property, vehicle, employer bond, workers' compensation, group insurance, and state unemployment.

These coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Department are covered by blanket fidelity bond up to \$5,000,000 with a \$1,000 deductible per occurrence by the State of New Mexico for the period July 1, 2010, through June 30, 2012.

18. Commitments and Contingencies

*Capital Project Funding* – The Department has future commitments to fund projects through June 30, 2014. These future project commitments are listed in detail in the Schedule of Capital Projects – Severance Tax Appropriations and State General Fund Appropriations.

*Legal Proceedings* – The Department is involved in legal proceedings pertaining to a \$337,500 Professional Services Contract awarded to and paid to a film production company to create an educational documentary film regarding the contribution of the Navajo Code Talkers in World War II. The production company has disputed the State's ownership of the product. The Department intends to contest the case and feels there is a high likelihood of a favorable outcome, which would result in the Department maintaining ownership of the rights of the documentary film. No formal resolution of this matter has been executed as of June 30, 2012. In the event that the outcome is not in the Department's favor, any settlement would be covered under the Risk Management agreement with the General Services Department (see Note 17).

19. Subsequent Events

The Department has evaluated subsequent events through May 14, 2012, the date which the financial statements were available to be issued.



COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Combining Balance Sheet – Non-Major Funds  
Governmental Funds  
June 30, 2012

	Special Revenue Funds			
	Special Capital Outlay Fund 09900	IAD Grant Fund 66700	GF Reauthor- ization Fund 93100	Total
<b>Assets</b>				
Investment in the State Treasurer				
General Fund investment pool	\$ -	80,109	540,882	620,991
Due from other funds			13,315	13,315
Due from other state agencies	68,221	-	-	68,221
Total assets	<u>\$ 68,221</u>	<u>80,109</u>	<u>554,197</u>	<u>702,527</u>
<b>Liabilities</b>				
Accounts payable	\$ -	23,113	13,315	36,428
Bank overdraft	68,221	935	-	69,156
Deferred revenue	-	36,029	-	36,029
Due to other agencies	-	-	1,210	1,210
Due to other funds	-	12,875	-	12,875
Total liabilities	68,221	72,952	14,525	155,698
<b>Fund balance:</b>				
Restricted	-	-	539,672	539,672
Unassigned	-	7,157	-	7,157
Total fund balances	-	7,157	539,672	546,829
Total liabilities and fund balances	<u>\$ 68,221</u>	<u>80,109</u>	<u>554,197</u>	<u>702,527</u>

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

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Combining Statement of Revenues, Expenditures and  
Changes in Fund Balances – Non-Major Funds  
Governmental Funds  
For the Year Ended June 30, 2012

	Special Revenue Funds			
	Special	GF		
	Capital	Reauthor-		
	Outlay Fund	IAD Grant	ization Fund	Total
	09900	Fund 66700	93100	
Revenues:				
Private grants	\$ -	85,720	-	85,720
Total revenues	-	85,720	-	85,720
Expenditures:				
General government:				
Personal services	-	-	-	-
Contractual services	-	31,829	-	31,829
Other costs	-	53,891	168,396	222,287
Total expenditures	-	85,720	168,396	254,116
Excess (deficiency) of revenues over expenditures	-	-	(168,396)	(168,396)
Other financing sources (uses):				
Reversions	-	-	-	-
Bond proceeds appropriations	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	-	-	(168,396)	(168,396)
Fund balance, beginning	-	7,157	708,068	715,225
Fund balance, ending	\$ -	7,157	539,672	546,829

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

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Statement of Revenues and Expenditures – Budget and Actual  
(Budgetary Basis)  
Non-Major Special Revenue Fund – IAD Grant 66700  
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavor- able)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other funds:				
Private gifts and grants	\$ 34,780	121,749	<u>85,720</u>	<u>(36,029)</u>
Total revenues	34,780	121,749	<u>85,720</u>	<u>(36,029)</u>
Prior-year fund balance	<u>7,157</u>	<u>7,157</u>		
Total revenues budgeted	\$ <u>41,937</u>	<u>128,906</u>		
Expenditures:				
General government:				
Personal services	\$ -	-	-	-
Contractual services	24,448	48,364	31,829	16,535
Other costs	<u>10,332</u>	<u>73,385</u>	<u>53,891</u>	<u>19,494</u>
Total expenditures	\$ <u>34,780</u>	<u>121,749</u>	<u>85,720</u>	<u>36,029</u>
Reconciliation of GAAP basis to budget basis revenue:				
GAAP basis revenue			\$ 85,720	
Adjustments: None			<u>-</u>	
Budget basis revenue			\$ <u>85,720</u>	
Reconciliation of GAAP basis to budget basis expenditures:				
GAAP basis expenditures			\$ 85,720	
Adjustments: None			<u>-</u>	
Budget basis expenditures			\$ <u>85,720</u>	

Note: The actual expenditures on the budgetary basis do not include any accounts payable that required a request to pay prior-year bills out of the FY 2012 budget.

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

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Statement of Revenues and Expenditures –  
Budget and Actual (Budgetary Basis) (Multi-Year)  
Non-Major Special Revenue Fund – General Fund Reauthorization Fund 93100  
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other funds:				
Other financing sources-transfers	\$ -	-	-	-
Total revenues	-	-	-	-
Prior-year fund balance	<u>708,068</u>	<u>708,068</u>		
Total revenues budgeted	\$ <u>708,068</u>	<u>708,068</u>		
Expenditures:				
General government:				
Other costs	\$ <u>708,068</u>	<u>708,068</u>	<u>168,396</u>	<u>539,672</u>
Total expenditures	\$ <u>708,068</u>	<u>708,068</u>	<u>168,396</u>	<u>539,672</u>
Reconciliation of GAAP basis to budget basis revenue:				
GAAP basis revenue			\$ -	
Adjustments: None			-	
Budget basis revenue			<u>\$ -</u>	
Reconciliation of GAAP basis to budget basis expenditures:				
GAAP basis expenditures			\$ 168,396	
Adjustments: None			-	
Budget basis expenditures			<u>\$ 168,396</u>	

Note: The actual expenditures on the budgetary basis do not include any accounts payable that required a request to pay prior-year bills out of the FY 2012 budget.

There are 4 Capital Projects summarized in the statement above.

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

OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO  
 Schedule of Capital Projects - Severance Tax  
 Ju

#	Fund Code	Org. Code	BOF/CPD		Description
			Proj. #		
1	10000	083962	08-3962		Indian Pueblo Cultural Center p/d/c cultural center
2	10000	083965	08-3965		Acoma Pueblo design & renovate boys & girl's club
3	10000	083967	08-3967		Acoma Pueblo p/d/c/e wastewater treatment facility
4	10000	083969	08-3969		Laguna Pueblo plan & design swimming pool
5	10000	083970	08-3970		Laguna Pueblo p/d/c water, WW & infrastructure
6	10000	083971	08-3971		Ramah Ch. p/d/c bathroom additions to homes
7	10000	083973	08-3973		Fort Defiance Ch. p/d/c water lines & bathroom additions
8	10000	083975	08-3975		Baahaali Ch. p/d/c parking lot
9	10000	083978	08-3978		Baca-Prewitt Ch. p/d/c bathroom additions renovations
10	10000	083991	08-3991		Pinedale Ch. p/d/c wiring & powerline
11	10000	083999	08-3999		Twin Lakes Ch. Construct Government office complex
12	10000	084003	08-4003		Zuni Pueblo construct wastewater treatment cells
13	10000	084006	08-4006		Isleta Pueblo p/d/c veterans' center
14	10000	084007	08-4007		Sandia Pueblo p/d/c/r/e health center
15	10000	084016	08-4016		Lake Valley Ch. construct a powerline
16	10000	084030	08-4030		Jemez Pueblo construct tribal admin comm serv bldg
17	10000	084040	08-4040		San Ildefonso Pueblo Wellness Center
18	10000	083997	08-3997		Tohatchi Fence Install
1	10100	083976	09-3825		Baahaali Ch. p/d/c & renovate chapter house
2	10100	074660	09-3826		Breadsprings Ch. p/d/c powerline extensions
3	10100	074724	09-3832		Nenahnezad Ch. Improve & repairs community center
4	10100	074643	09-3824		Laguna Pueblo p/d/c improvements to public water system
1	89200	10-1288C	10-1288C		Pueblo of Pojoaque White Sands Phase II
2	89200	10-1288D	10-1288D		White Rock Powerline Extension
3	89200	10-1288E	10-1288E		Tsayatoh Bathroom Additions
4	89200	10-1288G	10-1288G		Pinedale Community Power Line/House Wiring Project
5	89200	04-1579	04-1579		Tohatchi Chapter Powerline Extension
1	93100	073442	07-3442		Tohatchi Ch. p/d/c/r/e skateboard park
2	93100	074639	07-4639		Acoma Pueblo p/d/c & renovate skyline lagoon system
3	93100	074669	07-4669		Crownpoint Wellness Center Construct
4	93100	074738	07-4738		White Rock Ch. p/d/c powerline home sites

The accompanying notes are an i

DIAN AFFAIRS DEPARTMENT  
 ropriations and State General Fund Appropriations  
 0, 2012

Tribal Govt.	Funding Source	Appr. End Date	Amount Appropriated or Reauthorized	Amount Expended	Unexpended/ Uncommitted Balance
Other	GF/08	6/30/2012	\$ 66,262	66,254	8
19 Pueblos	GF/08	6/30/2012	25,000	25,000	-
19 Pueblos	GF/08	6/30/2012	50,000	50,000	-
19 Pueblos	GF/08	6/30/2012	25,000	25,000	-
19 Pueblos	GF/08	6/30/2012	40,000	40,000	-
Navajo Nat.	GF/08	6/30/2012	55,000	54,989	11
Navajo Nat.	GF/08	6/30/2012	30,000	29,641	359
Navajo Nat.	GF/08	6/30/2012	85,000	85,000	-
Navajo Nat.	GF/08	6/30/2012	35,000	34,787	213
Navajo Nat.	GF/08	6/30/2012	35,000	21,876	13,124
Navajo Nat.	GF/08	6/30/2012	35,000	20,542	14,458
19 Pueblos	GF/08	6/30/2012	50,000	48,563	1,437
19 Pueblos	GF/08	6/30/2012	25,000	9,623	15,377
19 Pueblos	GF/08	6/30/2012	118,800	118,793	7
Navajo Nat.	GF/08	6/30/2012	40,000	40,000	-
19 Pueblos	GF/08	6/30/2012	148,500	148,500	-
19 Pueblos	GF/08	6/30/2012	50,000	49,872	128
Tohatchi Ch. Pur	GF/08	6/30/2012	10,000	10,000	-
Total projects fund 10000			\$ 923,562	878,438	45,124
Navajo Nat.	GF/08/STB09	6/30/2012	\$ 45,000	-	45,000
Navajo Nat.	GF/07/STB09	6/30/2013	114,000	-	114,000
Navajo Nat.	GF/07/STB09	6/30/2013	100,000	-	100,000
Navajo Nat.	GF/07/STB09	6/30/2013	100,000	-	100,000
Total projects fund 10100			\$ 359,000	-	359,000
19 Pueblos	STB/11	6/30/2014	\$ 380,150	-	380,150
Navajo Nat.	STB/11	6/30/2014	504,148	-	263,179
Navajo Nat.	STB/11	6/30/2014	390,000	-	347,901
Navajo Nat.	STB/11	6/30/2014	80,000	-	80,000
Navajo Nat.	STB/11 R	6/30/2013	80,000	56,000	24,000
Total projects fund 89200			\$ 1,434,298	56,000	1,378,298
Navajo Nat.	GF/09 R	6/30/2013	\$ 210,000	-	210,000
19 Pueblos	GF/11 R	6/30/2013	50,000	-	50,000
Navajo Nat.	GF/11 R	6/30/2013	450,000	170,163	279,837
Navajo Nat.	GF/11 R	6/30/2013	50,000	44,623	5,377
Total projects fund 93100			\$ 760,000	214,786	545,214

ral part of these financial statements.



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

Mr. Arthur Allison, Cabinet Secretary  
State of New Mexico, Indian Affairs Department

and

Mr. Hector H. Balderas, State Auditor  
New Mexico Office of the State Auditor  
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue funds, and the combining and individual funds and related budgetary comparisons presented as supplemental information of the State of New Mexico, Indian Affairs Department (Department) as of and for the year ended June 30, 2012, and have issued our report thereon dated May 14, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, and other deficiencies that we consider to be significant deficiencies.

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

State of New Mexico, Indian Affairs Department  
and New Mexico Office of the State Auditor

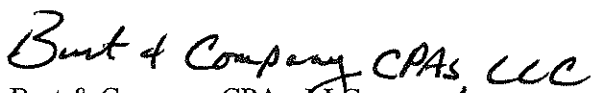
findings and responses be material weaknesses, which are listed as findings 2009-1, 2011-1, 2011-2, 2012-1, 2012-4, 2012-6, and 2012-9. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the Schedule of Findings and Responses to be significant deficiencies, which are listed as findings 2011-3, 2012-2, and 2012-14.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2012-3, 2012-5, 2012-7, 2012-8, 2012-10, 2012-11, 2012-12, 2012-13, 2012-14, and 2012-15.

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

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

  
Burt & Company CPAs, LLC

May 14, 2013

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Schedule of Findings and Responses  
June 30, 2012

I. Prior-Year Audit Findings

- A. Finding #2009-1 – Severance Tax Bond Fund Not Reconciled – Repeated and modified
- B. Finding #2010-2 – Timeliness of Drawdown Requests – Resolved
- C. Finding #2011-1 – Reversions – SHARE Fund 10000 – Repeated and Modified
- D. Finding #2011-2 – SHARE Fund 10000 underfunded - Repeated
- E. Finding #2011-3 – Interagency balances - Repeated

II. Current-Year Findings Pertaining to the Financial Statements

- A. Finding #2009-1 – Severance Tax Bond Funds Not Reconciled (Material Weakness)

Condition: Severance tax bond funds 10100, 42900, and 89200 were not reconciled to amounts due from the Board of Finance. In addition, related expenditures were not reconciled to revenues for these funds.

Criteria: Amounts that have been reimbursed to project recipients should be reconciled to draw downs received by the Board of Finance to balance the revenues with the expenditures.

Cause: Periodic monitoring of projects was not sufficient to detect amounts paid but not received.

Effect: Material audit adjustments were made to the funds because the funds were not reconciled.

Recommendation: Monthly reconciliations should be performed and monitored to identify discrepancies as well as preparing a year end accruals and/or adjustments and necessary follow up on discrepancies.

Response: We are aware of the problem. The Department will be hiring two contractors in FY14 to assist with the reconciliations of Funds 10100, 42900, and 89200. This problem should be remedied by the end of Fiscal Year 2014.

- B. Finding #2011-1 – Reversions – Capital Projects - SHARE Fund 10000 (Material Weakness)

Condition: Prior year reversion accrual was not adjusted for payments made in current year in the amount of \$262,040.

Reversions for the current fiscal period in the amount of \$45,124 were not recorded as

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Schedule of Findings and Responses (continued)  
June 30, 2012

due to the state general fund.

Criteria: Pursuant to the respective laws for state general fund capital appropriations, unexpected funds at the end of the appropriation period are to be reverted to the state general fund.

Cause: Staff did not reconcile fund activity at the end of the period.

Effect: The amount due to the state general fund was overstated by \$216,917.

Recommendations: We recommend that systematic reconciliation processes as well as ongoing monitoring processes be implemented to identify the proper accrual amounts and adjustments as needed.

Response: The Department will start implementing completing the reversions on a timely basis.

C. Finding #2011-2 – SHARE Fund 10000 underfunded (Material Weakness)

Condition – SHARE fund 10000 does not appear to have sufficient resources to fund remaining open projects.

Criteria – General fund capital outlay projects are funded in full at the beginning of the appropriation period(s). Proper accounting practices should be followed to insure that resources are managed so as to provide complete funding for all appropriated projects.

Cause – Staff monitoring of the projects in this fund were not adequate which resulted in an improper accounting of the amounts to be funded in future periods.

Effect – The agency will be required to further research the cause of this condition in order to determine if a deficiency appropriation request will be required to be submitted to remedy the condition.

Recommendations – The Department should consider staffing the capital outlay position with an individual that has the proper level of accounting experience/training to properly monitor and account for all funds appropriated to and administered by the Department.

Response: The Department has recently hired two contractors to assist with the reconciliation of Fund 10000. The lack of sufficient resources will be defined per the reconciliation process and reports to be provided by the contractors.

D. Finding #2011-3 – Interagency balances – (Significant Deficiency)

Condition: Amounts due from other agencies have not been collected.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Schedule of Findings and Responses (continued)  
June 30, 2012

Criteria: Interagency balances should be settled and/or collected within a one year period; there are two funds with amounts uncollected that are over two years old.

Cause: The balances do not appear to be tied to specific projects or the source documents to support the transactions from previous periods are not available.

Effect: The agency has resources due to them that have not been available to support current operations for SHARE funds 10000 and 09900.

Recommendations: We recommend that the agency continue to make efforts to collect on these amounts and consider whether they are indeed fully collectible for the purposes of subsequent year presentation and disclosure.

Response: The Department will research this problem and define whether monies are fully collectible to Funds 10000 and 09900. This finding should be remedied by December of 2014.

E. Finding # 2012-1 – Cash Deposit not Recorded Timely – Material Weakness

Condition: Cash transaction recorded in the wrong fiscal year

Criteria: Pursuant to 2.20.5 Subsection C (10), “all reporting of financial information must be timely.....”

Cause: A check dated November 9, 2010 in the amount of \$86,969 written to the Department was deposited timely but not recorded in the agency’s general ledger until October, 2011.

Effect: SHARE fund 66700 was materially misstated over an extended period of time.

Recommendation: Monthly review of activity in all funds needs to be conducted in order to identify actual or potential misstatements, errors, or classification issues on a timely basis. This is especially true for large and/or unusual items to insure proper accounting treatment.

Response: The Department will institute monthly monitoring of cash for all funds of the Department.

F. Finding # 2012-2 – Retainage Fees Policy/Closure of Projects – Significant Deficiency

Condition: Per review of the capital projects payment process for Navajo nation projects, it could not be determined that retainage fees were timely remitted by the Navajo nation to vendors upon satisfactory completion of projects. Project completion and project closure should be monitored by management to insure money is being appropriately spent for projects usable for their purpose at time of completion.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Schedule of Findings and Responses (continued)  
June 30, 2012

Criteria: Full timely payment should be made to vendors upon satisfactory completion of projects. Project close out should include confirmation that construction was performed in satisfactory manner and the related project is usable for its purpose at time of close out.

Cause: There is not a written policy related to release of retainage fees to vendors when projects are closed out and deemed completed.

Effect: Unsure whether funds have ultimately been properly disbursed. Unsure whether completed projects are satisfactory completed and usable.

Recommendation: Management should develop a project closure policy that includes the review that retainage fees have been timely disbursed to vendors at time of project completion.

Response: The Department will develop an internal close-out policy and procedure that will monitor and document retainage fees to determine that they have been timely disbursed to vendors at time of project completion. As of current date, the Department is taking corrective action by declining reimbursement to the Navajo Nation on draw requests which include unpaid retainage fees.

G. Finding # 2012-4 – Grant Compliance; Questionable Costs – Material Weakness

Condition: Out of 13 Kellogg grant disbursements observed, 6 items in the amount of \$17,955 did not appear to be allowable under the grant agreement, and 3 other items amounting to \$3,081 did not have supporting documentation or could not be located.

Criteria: All expenditures incurred in conjunction with private grant funding should be for purposes stated in the agreement. In addition, pursuant to Section 6-5-7, NMSA 1978, agencies should maintain supporting documentation for all disbursements to include, at a minimum, a copy of the invoice.

Cause: Management appears to have misinterpreted the allowable expenditures as outlined in the funding agreement. In addition, management has not maintained custody of the support documentation for all of the expenditures incurred under the agreement.

Effect: There are questionable expenses related to the Kellogg Grant and the agency is not in full compliance with Section 6-5-7, NMSA.

Recommendation: Management should review and understand all third party agreements it enters into and understand the repercussions of not adhering to any and all provisions as stated in such agreements.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Schedule of Findings and Responses (continued)  
June 30, 2012

Response: Management will review all third party agreements and/or grant agreements it enters into and comply with the agreements terms over allowable and unallowable expenditures.

H. Finding # 2012-6 – Unrecorded Liabilities – Material Weakness

Condition: Invoices relating to capital projects in the amount of \$1,512,650 were improperly excluded from vouchers payable at June 30, 2012.

Criteria: Pursuant to Financial Control Division Year End Deadlines Memo dated April 12, 2012, Section CDS1.001 invoices or obligations for services rendered or goods received prior to year end should be recorded no later than July 31, 2012 as expenditures and vouchers payable in that fiscal year regardless of when the warrant is processed for payment.

Cause: The paperwork necessary to record the payables was not processed by the deadline of July 31, 2012.

Effect: Expenditures and related Vouchers Payable accounts in the government wide financial statements were understated by \$1,512,650, and not processed in a timely manner.

Recommendation: Management should adhere to the year end closing checklist as provided by the Financial Control Division.

Response: The Department will ensure the Accounts Payables are posted timely per the Department of Finance and Administration deadline date.

I. Finding # 2012-9 – Revenue Classification – Material Weakness

Condition: Revenues improperly classified.

Criteria: Revenues from Severance Tax Bonds should be classified as Other Financing Sources in the Statement of Revenues, Expenditures, and Changes in Fund Balance. The agency had an amount of \$241,691 classified as Intra-State Warrants / Federal Grants and was not aware that the amount had been recorded as such.

Cause: It does not appear that management performed adequate monitoring or review of the activity in this fund during the fiscal year.

Effect: Misstatement of revenue sources and understatement of STB revenues in the amount of \$241,691.

Recommendation: We recommend that a designated member of the accounting staff review the activity at the fund level on a monthly basis for all funds to attempt to reconcile known activity against what is recorded in SHARE.

STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Schedule of Findings and Responses (continued)  
June 30, 2012

Response: The Department will properly monitor the funds on a monthly-basis and verify the revenues are properly classified to the correct account codes.

J. Finding # 2012-14 –Compensating Time – Significant Deficiency

Condition: The agency has been maintaining a “comp time” worksheet, whereby the staff within the agency have been allowed to accrue “comp time” at a rate of 1.5 times the actual amount of comp time earned. In addition, this liability had not been recorded in the accounting system.

Criteria: All financial activity should be properly recorded in the actual books of record which is the SHARE system.

Cause: The agency was maintaining a spreadsheet outside the SHARE system to record compensating time.

Effect: The agency had an unrecorded liability of \$6,775.

Recommendation: All accounting staff or personnel that are involved in any accounting processes should be trained on proper accounting processes in accordance with the *Manual of Model Accounting Practices* issued by the New Mexico Department of Finance and Administration.

Response: The Department worked together with the State Personnel Office during FY13 to get IAD staff trained in SHARE – HCM. Currently, IAD staff is entering their exceptions in SHARE including comp time earned and taken.

III. Current Year Findings in Accordance with N.M.A.C.2.2.2

A. Finding # 2012-3 – Supporting Documentation – Noncompliance

Condition: Out of 25 general and administrative disbursements observed, 1 item in the amount of \$533 did not have a copy of the invoice attached, 2 items totaling \$28,534 did not have a copy of the warrant attached, and 2 items totaling \$11,611 did not contain any supporting documentation.

Criteria: Pursuant to Section 6-5-7, NMSA 1978, agencies should maintain supporting documentation for all disbursements to include, at a minimum, a copy of the invoice.

Cause: Staff oversight.

Effect: The agency is not in full compliance with Section 6-5-7, NMSA.



STATE OF NEW MEXICO  
INDIAN AFFAIRS DEPARTMENT  
Schedule of Findings and Responses (continued)  
June 30, 2012

Recommendation: Staff should review all supporting documentation that accompanies a disbursement to insure that the necessary documents are included.

Response: The Department will ensure all supporting documentation that accompanies a cash disbursement is included.

B. Finding # 2012-5 – Incomplete Documentation – Noncompliance

Condition: Out of 12 Tobacco Cessation related disbursements observed, 3 items totaling \$26,019 did not have supporting documentation or could not be located and one item did not appear to be an allowable expense.

Criteria: All expenditures incurred in conjunction with the tobacco cessation programs should be for purposes pursuant to Section 6-4-10 NMSA 1978 “Tobacco Settlement Permanent Fund”. In addition, pursuant to Section 6-5-7, NMSA 1978, agencies should maintain supporting documentation for all disbursements to include, at a minimum, a copy of the invoice.

Cause: It does not appear that the detail behind the aforementioned items was adequately reviewed by management. In addition, management has not maintained custody of the supporting documentation for some items selected in the sample.

Effect: The agency is not in compliance with Section 6-5-7 NMSA 1978 or Section 6-4-10 NMSA 1978.

Recommendation: Management should perform a thorough review of the supporting documentation for all disbursements as well as maintain custody of records pursuant to Section 6-5-7 NMSA 1978.

Response: The Department will verify that all cash disbursements will be accompanied by the proper supporting documentation. In addition, the Department will maintain custody of all accounting files and records.

C. Finding # 2012-7 – Asset Dispositions – Noncompliance

Condition: Asset dispositions related to miscellaneous office equipment was not reported timely to the Office of the State Auditor.

Criteria: Pursuant to NMAC 2.2.2.10(V), agencies must notify the Office of the State Auditor at least 30 days in advance of their intent to dispose of capital assets.

Cause: Agency was not familiar with this requirement.

Effect: Non compliance with NMAC 2.2.2.10(V).

Recommendation: We recommend that the agency become more aware of the statutes that are applicable to their operations and activity going forward.

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Response: The Department is aware of the thirty day notification to the State Auditor on disposing of capital assets. Corrective action has taken place on this finding during FY13.

D. Finding # 2012-8 – Review of Cash Activity – Noncompliance

Condition: A cash deposit in the amount of \$9,936 has remained uninvestigated on the balance sheet for over a year.

Criteria: Pursuant to Section 2.20.5.8 NMAC, the chief financial officer is responsible for monitoring and/or reconciling the agency's accounts.

Cause: It does not appear that periodic monitoring occurred during the year in which unusual or unexpected transactions could have been detected and addressed on a timely basis.

Effect: Transactions recorded in the Agency's ledger that are not known by the client could result in accounts to be misstated.

Recommendation: Based on recent directives and information provided by the Department of Finance and Administration and the Office of the State Auditor, the agency should implement cash balance monitoring and reconciliation procedures.

Response: The Department had a turnover in key positions during FY13. The Department will implement and monitor the cash balances for all funds on a monthly basis.

E. Finding # 2012-10 – Reversions – Operating Funds – Noncompliance

Condition: Prior year reversions of operating funds were not reverted to State General Fund in a timely manner.

Criteria: Pursuant to Section 6-5-10, NMSA, 1978, reverting funds shall revert to the State General Fund within ten days of release of the audit report for the given fiscal year.

Cause: Management reverted a partial amount of the FY 2011 reversion amount but had an unreverted amount of \$183,782 at June 30, 2012 that related to the prior year.

Effect: The agency is out of compliance with Section 6-5-10 NMSA 1978.

Recommendation: We recommend that the agency revert amounts due to the State General Fund in accordance with Section 6-5-10, NMSA, 1978 on a going forward basis.

Response: The Department is aware of the issue and will complete the reversions on a

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timely basis. This issue will be remedied in FY14.

F. Finding # 2012-11 - Budget violation – Noncompliance

Condition: Actual expenses exceeded budgeted expenses in SHARE funds 10000, 10100, and 89200.

Criteria: Pursuant to 2.2.2.10 (P) NMAC, agencies are not allowed to exceed budgeted expenditures at the budgetary level of control.

Cause: SHARE fund 10000 does not have enough assets to pay the liabilities and resulted in a deficit budget in this fiscal year.

Effect: Non compliance with 2.2.2.10 (P) NMAC relating to budget compliance.

Recommendation: The agency should monitor the project activity to insure that it is in compliance with this requirement.

Response: The Department will set up operating budgets for all Capital Outlay Project Funds. This issue will be remedied in FY14.

G. Finding # 2012-12 - Cash monitoring procedures – Noncompliance

Condition: Inadequate cash balance monitoring procedures

Criteria: Pursuant to 2.20.5.8 C(4), “cash account records are reconciled timely each month to...

Cause: A system to comply with this requirement was not in place during the year.

Effect: Non compliance with 2.20.5.8 C(4) NMAC relating to the responsibility for the accounting function.

Recommendation: Based on recent directives and information provided by the Department of Finance and Administration and the Office of the State Auditor, the agency should implement cash balance monitoring and/or reconciliation procedures.

Response: The Department had a turnover in key positions during FY13. The Department will implement and monitor the cash balances for all funds on a monthly basis.

H. Finding # 2012-13 - Timeliness of Audit Report – Noncompliance

Condition: The June 30, 2012, fiscal year audit report for the State of New Mexico, Indian Affairs Department was not submitted to the State Auditor’s Office by the required due date of December 6, 2010. The audit report was submitted May 16, 2013.

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Criteria: Subsection A of 2.2.2.9 (2.2.2 NMAC), Requirements for Contracting and Conducting audits of Agencies, and the audit contract requires that audit reports for state agencies are due no later than 60 days after the Financial Control Division of the Department of Finance and Administration provides the State Auditor with notice that the agency's books and records are ready and available for audit; however, the deadline cannot extend beyond December 15th.

Cause: The agency did not have the necessary documentation to complete the audit, and thus, the report was not submitted to the auditor in a timely manner.

Effect: Non compliance with 2.2.2.9 NMAC relating to the statutory deadline for audit submission.

Recommendation: We recommend that future audit reports be delivered to the State Auditor's Office by the contracted delivery date in full compliance with the State Auditor's Rule 2.2.2.9A and the provision of the audit contract.

Response: Due to a turnover in key positions and other difficulties in completing the audit, the FY12 audit was delayed. The Department will ensure the FY13 audit will be submitted timely.

I. Finding # 2012-14 –Compensating Time – Noncompliance

Condition: The agency has been maintaining a "comp time" worksheet, whereby the staff, within the agency, have accrued "comp time" at a rate of 1.5 times the actual amount of comp time earned. In addition, this liability has not been recorded in the original books and records.

Criteria: All financial activity should be properly recorded in the actual books of record which is the SHARE system.

Cause: The agency was maintaining a spreadsheet outside the SHARE system to record compensating time.

Effect: The agency had an unrecorded liability of \$6,775, and was operating an unapproved time compensation system.

Recommendation: All accounting staff or personnel that are involved in any accounting processes should be trained on proper accounting processes in accordance with the *Manual of Model Accounting Practices* issued by the New Mexico Department of Finance and Administration.

Response: The Department worked together with the State Personnel Office during FY13 to get IAD staff trained in SHARE – HCM. Currently, IAD staff is entering their exceptions in SHARE including comp time earned and taken.

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J. Finding # 2012-15 - Use of State Vehicle - Noncompliance

Condition: Review of the agency's vehicle log indicated that some of the mileage entries were not consistent with the point of origin and / or point of destination. In addition, certain entries indicated that one vehicle was checked out for a period of over a month with no detail as to the trips made during that time frame. The client was unable to corroborate the information upon inquiry by the auditors. It was also noted that the keys for one of the vehicles did not appear to be secured in between trips and that some trips were not recorded in the log at all.

Criteria: Pursuant to NMSA 1978 15-8-1 through 15-8-11, vehicles are to be used for "official purposes" only and are not to be used for personal use or commuting.

Cause: It appears the agency did not comply with the vehicle use policy as prescribed.

Effect: The agency is out of compliance with the statute noted above and could be subject to the applicable penalties.

Recommendation: We recommend that the agency review the policy and educate the staff as to what the statutory limitations are for vehicle use and the possible repercussions for not adhering to the policy. Additionally, management should perform adequate timely review to insure compliance.

Response: The Department is aware of the issue and is making sure IAD staff are signing in and out on the Vehicle log book maintained by the Cabinet Secretary's Executive Assistant.

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Financial Statement Preparation

The financial statements were substantially prepared by the auditor with the assistance of the Department. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are current and in balance.

Exit Conference

An exit conference was held on May 14, 2013 to discuss the audit. The following individuals were in attendance:

State of New Mexico, Indian Affairs Department

Arthur Allison, Cabinet Secretary  
Duane Duffy, Deputy Cabinet Secretary  
Rosemary Whitegeese, Chief Financial Officer

Independent Auditor – Burt & Company CPAs, LLC

Ronald E. Schranz, CPA, CVA - Partner