

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT**

**FINANCIAL STATEMENTS AND SCHEDULES
WITH INDEPENDENT AUDITORS'
REPORT THEREON FOR THE
FISCAL YEAR ENDED JUNE 30, 2018**

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
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JUNE 30, 2018**

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INDIAN AFFAIRS DEPARTMENT
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**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT**

OFFICIAL ROSTER

JUNE 30, 2018

ADMINISTRATIVE OFFICIALS

Suzette Shije	Acting Cabinet Secretary
JoAnn Lapington	Chief Financial Officer
Jared Stensrud	General Counsel



Independent Auditors' Report

Honorable Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico
and
Suzette Shije, Acting Cabinet Secretary
Indian Affairs Department
Santa Fe, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, the aggregate remaining fund information and the budgetary comparisons for the General Fund and major special revenue fund of the State of New Mexico, Indian Affairs Department (Department) as of and for the year ended June 30, 2018 and the related notes to the financial statements which collectively comprises the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Department as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance 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 budgetary comparisons for the general fund and major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information:

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information:

Our audit was conducted for the purpose of forming opinions on the financial statements, the combining and individual fund financial statements and the budgetary comparisons. The other schedules required by Section 2.2.2 NMAC 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.

The Schedule of Capital Projects – Severance Tax Appropriations, General Fund Appropriations and other schedules required by Section 2.2.2 NMAC are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 my opinion, the Schedule of Capital Projects – Severance Tax Appropriations, State General Fund Appropriations and other schedules required by Section 2.2.2 NMAC is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018 on our consideration of the Department’s internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department’s internal control over financial reporting and compliance.

Kubiak Melton & Associates, LLC

Kubiak Melton & Associates, LLC
Auditors – Business Consultants - CPAs

Albuquerque, New Mexico
October 12, 2018

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

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 Position 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 position and how they have changed. Net position — the difference between the Department's assets and liabilities — is one way to measure the Department's financial health or position.

- Over time, increases or decreases in the Department's net 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
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

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 three (3) special revenue funds as follows:

- Special IAD Grant Fund (Fund No. 66700)
- STB Reauthorization Fund (Fund No. 89200)
- GF Reauthorization Fund (Fund No. 93100)

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

Financial Analysis of the Department as a Whole

Statement of Net Position

An increase in the amount of active capital appropriations statewide resulted in more funding for the Department, while expenditures/disbursements to existing projects increased proportionately.

The statement of net assets summarizes the Department's net position for the fiscal year ending June 30, 2018. The following compares the current year with the prior year:

	<u>FY 2018</u>	<u>FY 2017</u>	<u>Change</u>	<u>% Change</u>
Assets				
Current Assets	\$ 5,489,619	\$ 6,262,607	\$ 772,988	12%
Capital Assets, Net	4,105	8,734	4,629	53%
Total Assets	<u>\$ 5,493,724</u>	<u>\$ 6,271,341</u>	<u>\$ 777,617</u>	<u>12%</u>
Liabilities				
Current Liabilities	\$ 5,282,392	\$ 6,827,511	\$ 1,545,119	23%
Long-Term Liabilities	-	-	-	N/A
Total Liabilities	<u>5,282,392</u>	<u>6,827,511</u>	<u>1,545,119</u>	<u>23%</u>
Net Position				
Investment in Capital Assets	4,105	8,734	4,629	53%
Restricted	222,335	222,335	-	0%
Unrestricted	(15,108)	(787,239)	(772,131)	98%
Total Net Position	<u>211,332</u>	<u>(556,170)</u>	<u>(767,502)</u>	<u>138%</u>
Total Liabilities and Net Position	<u>\$ 5,493,724</u>	<u>\$ 6,271,341</u>	<u>\$ 777,617</u>	<u>12%</u>

Analysis of Financial Position (Statement of Net Position)

Current assets decreased by \$772,988, or 12% from a year ago. This is mainly attributable to DFA changing the way reversions are accounted for.

Current liabilities decreased by \$1,545,119, or 23% from a year ago. Current liabilities of \$5,282,392 consist primarily of accounts payable of \$808,157, and due to other local governments of \$4,406,961.

Net position (deficit) increased by \$767,502 from (\$556,170) to \$211,332.

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

Changes in Net Position

The statement of activities summarizes the Department's changes in net position for the fiscal years ending June 30, 2018 and June 30, 2017.

	FY 2018	FY 2017	Change	% Change
Program Revenues:				
Private Gifts and Grants	\$ -	\$ -	\$ -	N/A
Total Program Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>N/A</u>
General Revenues and Transfers:				
State General Fund Appropriations	3,030,400	2,522,400	(508,000)	-20%
Severance Tax Bond Appropriations	12,831,530	22,596,839	9,765,309	43%
Other Appropriations	334,031	249,300	(84,731)	-34%
Reversions to State General Fund	(595,866)	(824,282)	(228,416)	28%
Other Income (Loss)	-	-	-	<u>N/A</u>
Total General Fund Revenues and Transfers	<u>15,600,095</u>	<u>24,544,257</u>	<u>8,944,162</u>	<u>36%</u>
Expenses:				
General Government	<u>14,832,593</u>	<u>24,562,705</u>	<u>9,730,112</u>	<u>40%</u>
Change in Net Position	<u>767,502</u>	<u>(18,448)</u>	<u>(785,950)</u>	<u>4260%</u>
Net Position, Beginning of Year	<u>(556,170)</u>	<u>(537,722)</u>	<u>8,158,212</u>	<u>-1517%</u>
Net Position, End of Year	<u>\$ 211,332</u>	<u>\$ (556,170)</u>	<u>\$ 7,372,262</u>	<u>-1326%</u>

The Department has no governmental activities program revenues in FY 2018.

The Department's general revenue and transfers decreased by the amount of \$8,944,162, or 36%. The cost of governmental activities this year was \$14,832,893 compared to \$24,562,705 last year resulting in a decrease in the amount of \$9,730,112.

In summary, net position decreased by \$767,502.

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

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 fund balance amount of \$230,381.

Since the General Fund is a "reverting" fund, only balances appropriated into future fiscal years may be retained by the Department. The Department reverted \$595,866 to the State General Fund from unused State General Fund appropriations, compared to \$824,282 in the prior year. The reversion was due to Personnel Salaries high vacancy rate and entities not spending the full amount of the grant they were awarded.

General Fund Budgetary Highlights

The State Legislature makes annual appropriations to the Department. Adjustments to the budget require approval by the State Budget Division of the Department of Finance and Administration. During the fiscal year 2018, the Department had one category transfer budget adjustment that was based on a Department of Finance and Administration decision.

Analysis of Significant Budget Variations

The original General Fund budget was \$2,489,500. Budget decreases and budget adjustments totaled \$789,900. The final operating budget for the general fund was \$3,030,400.

Capital Assets and Debt Administration

Capital Assets

The Department's investments in capital assets for its governmental activities as of June 30, 2018 amounted to \$4,105, (net of accumulated depreciation). This investment in capital assets consists mainly of furniture, fixtures, and data processing equipment. There were no capital asset additions during FY 2018.

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Regarding the FY 2019 Appropriation Budget Request, the Chief Financial Officer (CFO) for IAD worked with the Cabinet Secretary and with various staff to compile the FY 2019 General Fund operating budget including the supplemental request. The proposed budget appropriations request was submitted to DFA – State Budget Division and to the Legislative Finance Committee on September 1, 2018.

The Executive Budget proposal request was equivalent to the FY 2018 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 Kubiak Melton & Associates, LLC to perform the annual financial audit for FY 2018. 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 NMS_GL_JOURNAL_LINE trial balance and other accounting queries and reports from the fiscal year. The CFO and Department's staff assisted the CPA with providing random selection testing information and preparation of financial documents. The Department received an Unmodified Opinion for their FY 2018 financial audit report. It is the Department's responsibility to submit the current fiscal year audit to the State Auditor's office by the due date of November 1, 2018.

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

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
ASSETS	
Current Assets:	
Investment in State General Fund Investment Pool	\$ 5,489,547
Due From Employees	72
Total Current Assets	5,489,619
Non-current Assets:	
Capital Assets, Net	4,105
Total Assets	\$ 5,493,724
 LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 808,157
Accrued Payroll	33,947
Other Liabilities	9,936
Due to Local Governments	4,406,961
Due to State General Fund	162
Due to Other State Agencies	75
Accrued Compensated Absences	23,154
Total Current Liabilities	5,282,392
 NET POSITION	
Net Investment in Capital Assets	4,105
Restricted for Special Revenue Funds	222,335
Unrestricted	(15,108)
Total Net Position	211,332
Total Liabilities and Net Position	\$ 5,493,724

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	Governmental Activities
Program Expenses	
Personal Services & Benefits	\$ 682,358
Contract Services	529,286
Other Costs	13,616,320
Depreciation Expense	4,629
Total Program Expenses	14,832,593
Program Revenues	
Private Gifts and Grants	-
Total Program Revenues	-
Net Program Expense	14,832,593
General Revenues and Transfers	
State General Fund Appropriations	3,030,400
Severance Tax Bonds Appropriation	12,831,530
Other Appropriations	334,031
Reversion to State General Fund FY 2018	(595,866)
Total Revenues and Transfers	15,600,095
Change in Net Position	767,502
Net Position - Beginning of Year	(556,170)
Net Position - End of Year	\$ 211,332

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
BALANCE SHEET -
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General Fund (04800)	STB Reauthorization Fund (89200)	Other Governmental Funds	Total
ASSETS				
Current Assets:				
Investment in State General Fund Investment Pool	\$ 561,710	\$ 4,673,956	\$ 253,881	\$ 5,489,547
Due From Employees	72	-	-	72
Total Assets	<u>\$ 561,782</u>	<u>\$ 4,673,956</u>	<u>\$ 253,881</u>	<u>\$ 5,489,619</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Accounts Payable	\$ 471,945	\$ 312,712	\$ 23,500	\$ 808,157
Accrued Payroll	33,947	-	-	33,947
Other Liabilities	9,936	-	-	9,936
Due to Local Governments	45,717	4,361,244	-	4,406,961
Due to State General Fund	162	-	-	162
Due to Other State Agencies	75	-	-	75
Total Liabilities	<u>561,782</u>	<u>4,673,956</u>	<u>23,500</u>	<u>5,259,238</u>
FUND BALANCES				
Restricted	-	-	222,335	222,335
Assigned	-	-	8,046	8,046
Unassigned	-	-	-	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>230,381</u>	<u>230,381</u>
Total Liabilities and Fund Balances	<u>\$ 561,782</u>	<u>\$ 4,673,956</u>	<u>\$ 253,881</u>	<u>\$ 5,489,619</u>

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Fund Balances for Governmental Funds \$ 230,381

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Capital Assets, Net 4,105

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Compensated Absences Payable (23,154)

Net Position of Governmental Activities **\$ 211,332**

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund (04800)	STB Reauthorization Fund (89200)	Other Governmental Funds	Total
REVENUES				
Miscellaneous Revenue	\$ -	\$ -	\$ -	\$ -
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Current:				
Personal Services & Benefits	685,284	-	-	685,284
Contract Services	510,454	-	18,832	529,286
Other Costs	678,790	12,831,530	106,000	13,616,320
Compensated Absences Expense	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>1,874,528</u>	<u>12,831,530</u>	<u>124,832</u>	<u>14,830,890</u>
Excess/(Deficiency)-Revenues over Expenditures	<u>(1,874,528)</u>	<u>(12,831,530)</u>	<u>(124,832)</u>	<u>(14,830,890)</u>
OTHER FINANCING SOURCES AND (USES)				
General Fund Appropriations	3,030,400	-	-	3,030,400
Severance Tax Bond Appropriations	-	12,831,530	-	12,831,530
Other Appropriations	228,031	-	106,000	334,031
Reversion to the State General Fund: FY18	<u>(595,866)</u>	<u>-</u>	<u>-</u>	<u>(595,866)</u>
Total Other Financing Sources and (Uses)	<u>2,662,565</u>	<u>12,831,530</u>	<u>106,000</u>	<u>15,600,095</u>
Net Change in Fund Balances	788,037	-	(18,832)	769,205
Fund Balances, Beginning	<u>(788,037)</u>	<u>-</u>	<u>249,213</u>	<u>(538,824)</u>
Fund Balances, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 230,381</u>	<u>\$ 230,381</u>

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
RECONCILIATION OF THE CHANGE IN FUND BALANCE OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balances - Total Governmental Funds \$ 769,205

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period these amounts are:

Capital Outlay	-	
Depreciation Expense	(4,629)	
	(4,629)	
Excess of capital outlay over depreciation expense		(4,629)

Expenses recognized in the Statement of Activities, not reported in the governmental funds:

(Increase) decrease in compensated absences		<u>2,926</u>
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Change in Net Position of Governmental Activities **\$ 767,502**

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL (NON-GAAP
BUDGETARY BASIS) -
GENERAL FUND - 04800
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Approved Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
General Fund Appropriations	\$ 2,240,500	\$ 2,240,500	\$ 2,240,500	\$ -
General Fund Appropriations - for Deficit Fund Balance	-	789,900	789,900	-
Other Appropriations	<u>249,300</u>	<u>249,300</u>	<u>228,031</u>	<u>(21,269)</u>
Total Revenues	<u>2,489,800</u>	<u>3,279,700</u>	<u>3,258,431</u>	<u>(21,269)</u>
Expenditures				
General Government:				
Personal Services	1,084,000	1,084,000	685,284	398,716
Contract Services	735,900	685,900	510,454	175,446
Other Costs	669,900	719,900	678,790	41,110
Transfers Out - Interagency	<u>-</u>	<u>(789,900)</u>	<u>(595,866)</u>	<u>(194,034)</u>
Total Expenditures	<u>2,489,800</u>	<u>1,699,900</u>	<u>1,278,662</u>	<u>421,238</u>
Excess (deficiency) of Revenues over (under) Expenditures	<u>\$ -</u>	<u>\$ 1,579,800</u>	<u>\$ 1,979,769</u>	<u>\$ (442,507)</u>

For the Department, Budgetary Basis is GAAP Basis.

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL (NON-GAAP
BUDGETARY BASIS) – MULTI-YEAR APPROPRIATION
STB REAUTHORIZATION FUND 89200
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Approved Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Severance Tax Bond Appropriations	\$ 84,303,870	\$ 80,972,232	\$ 12,831,530	\$ (68,140,702)
Total Revenues	<u>84,303,870</u>	<u>80,972,232</u>	<u>12,831,530</u>	<u>(68,140,702)</u>
 Expenditures				
General Government:				
Personal Services	-	-	-	-
Contract Services	-	-	-	-
Other Costs	<u>84,303,870</u>	<u>80,972,232</u>	<u>12,831,530</u>	<u>68,140,702</u>
Total Expenditures	<u>84,303,870</u>	<u>80,972,232</u>	<u>12,831,530</u>	<u>68,140,702</u>
 Excess (deficiency) of Revenues over (under) Expenditures	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ (136,281,404)</u>

For the Department, Budgetary Basis is GAAP Basis.

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 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 (Department or IAD), a cabinet-level department. In 2004, House Bill 39 was passed, establishing the Indian Affairs Department (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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Indian Affairs Department (Department) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The more significant accounting policies are described below.

Financial Reporting Entity and Component Units

The Indian Affairs 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).

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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-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 Position, 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 position is reported in three parts: net investment in capital assets, restricted net position, and unrestricted net position. When applicable, the effect of interfund activity between two funds is removed from the Statement of Net Position 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 nonexchange 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 position resulting from the current year's activities.

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basic Financial Statements – Government-Wide Statements (continued)

Restricted net position are those assets 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 position 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 position are available.

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 agency. Non-major funds are summarized into a single column. The Department's major funds are the general fund and one special revenue fund (STB Reauthorization Fund 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.

See Independent Auditors' Report

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basic Financial Statements – Government-Wide Statements (continued)

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- 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, 2018.

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 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.

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting and Financial Reporting Presentation

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.

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.

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting and Financial Reporting Presentation (continued)

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.

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.
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.

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting (continued)

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 Appropriation Act of 2017, Section 3, Subsection K, 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 current year budget.

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 the major funds are included with the basic financial statements.

Assets, Liabilities, Deferred Outflows / Inflows of Resources and Net Position / Fund Balance

Investment in the State Treasurer Investment Pool: The Department does not control any cash accounts. The State Treasurer has final authority on all cash disbursements and receives all cash receipts. Therefore, the Department had an investment with the State Treasurer for their share of the cash pool. The State Treasurer issues separate financial statements which disclose the collateral pledged to secure these deposits.

Receivables and Payables: Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as inter-fund balance. Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable from available resources. At June 30, 2018, the Department has \$72 in payroll receivables classified as other receivables.

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows / Inflows of Resources and Net Position / Fund Balance (continued)

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 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:

Furniture and Fixtures	10 years
Equipment and Machinery	5 years
Data Processing Equipment	3 years

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.

Compensated Absences Payable: Qualified employees accumulate annual leave as follows:

Years of Service	Hours Earned Per Month	Days Earned Per Month	Maximum Days of Accrual
1 - 3	6.16	0.83	30
4 - 6	7.38	1	30
7 - 10	9.22	1.25	30
11-14	11.08	1.5	30
15th - Beyond	12.3	1.67	30

See Independent Auditors' Report

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows / Inflows of Resources and Net Position / Fund Balance (continued)

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.

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, 2018, 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.

Reversions: The General Appropriation Act of 2017, Section 3, Subsection K, states that "For the purpose of administering the General Appropriation Act of 2007, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the Department of Finance and Administration." In accordance with the Department of Finance and Administration's "*Basis of Accounting- Modified Accrual and the Budgetary Basis*," the Department has accrued as payables amounts owed for goods and services received by June 30, 2018. There are no State general fund appropriations remaining in general fund (SHARE Fund 04800) fund balances.

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows / Inflows of Resources and Net Position / Fund Balance (continued)

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. 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.

The Department applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net Position: The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets - Is intended to reflect the portion of net assets which are associated with non-liquid, capital assets, which amounted to \$4,105 as of June 30, 2018.

Restricted - 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 net position amounted to \$222,335 as of June 30, 2018.

See Independent Auditors' Report

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows / Inflows of Resources and Net Position / Fund Balance (continued)

Net Position (continued)

Unrestricted - represent unrestricted liquid assets. The remaining net position is reported as unrestricted net position (deficit), which was \$(15,108) as of June 30, 2018.

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

GASB No. 68 - Financial Reporting and Disclosure for Multiple-Employer Cost Sharing Pension Plans by Employers: Compliant with the requirements of Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, the State of New Mexico implemented the standard for the fiscal year ending June 30, 2018.

The Department, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

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.

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 3: INVESTMENT IN STATE GENERAL FUND INVESTMENT POOL

State law (Section 8-6-3 NMSA 1978) requires the Office's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Office consist of their pro-rata interest in the State General Fund Investment Pool in the amount of \$5,489,547.

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

SHARE Acct #	Account Name	Balance Per State Treasurer	Reconciling Items	Balance Per Books
04800	General Fund	\$ 561,710	\$ -	\$ 561,710
66700	IAD Grant Fund	8,046	-	8,046
89200	STB Reauthorization Fund	4,673,956	-	4,673,956
93100	General Fund Reauthorization Fund	<u>245,835</u>	<u>-</u>	<u>245,835</u>
	Total Governmental Funds	<u>\$ 5,489,547</u>	<u>\$ -</u>	<u>\$ 5,489,547</u>

Cash is reported on the Statement of Net Position and the Balance Sheet as follows:

Investment in State Treasurer General Fund Investment Pool	\$ 5,489,547
Due to State Treasurer General Fund Investment Pool	-
	<u>\$ 5,489,547</u>

Collateral Pledged by Financial Institutions

Section 6-10-17, NMSA 1978 compilation requires that banks or savings and loans provide additional collateral on funds held that exceed the FDIC insurance limit. These excess funds are required to be fifty percent collateralized. The collateralization of the Department's bank accounts is monitored by the State Treasurer's Office. The State Treasurer issues separate financial statements which disclose the collateral pledged to secure these deposits.

Custodial Credit Risk-Deposit

Custodial Credit Risk is the risk that in the event of a bank failure, the Department's deposits may not be returned. The Office does not have a policy for custodial credit risk. As of June 30, 2018, none of the Department's bank balance was exposed to custodial credit risk. Since all of the bank accounts are considered to be under the State Treasurer's control, the bank accounts are over collateralized.

See Independent Auditors' Report

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 3: INVESTMENT IN STATE GENERAL FUND INVESTMENT POOL (continued)

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, 2018.

State General Fund Investment Pool Reconciliation

As provided for in Chapter 8-6 of the New Mexico Statutes Annotated 1978, the State Treasurer shall receive and keep all monies of the state, except where otherwise provided, and shall disburse the public money upon lawful warrants. The State Treasurer's Office (STO) acts as the state's bank. Agency cash receipts are deposited with STO and pooled in a statewide investment fund, when amounts are greater than immediate needs they are placed into short-term investments. When agencies make payments to vendors and employees they are made from this pool and their claims on the pool are reduced.

The comprehensive cash reconciliation mode, which compares aggregated agency claims on the State General Fund Investment Pool to the associated resources held by the State Treasurer's Office, is now in its fourth year. The process has been reviewed multiple times by the IPAs performing audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Comprehensive Annual Financial Report. The reviews has deemed the process to be sound and the Department fully compliant with the requirements of the monthly process.

The State Controller indicated on August 13, 2018 that as of June 30, 2018, resources held in the pool were equivalent to the corresponding business unit claims on those resources. It is also asserted that all claims as recorded in the SHARE system shall be honored at face value.

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 4: DUE FROM / TO OTHER STATE AGENCIES

The following are amounts due from/to other state agencies:

<u>Fund / Agency</u>	<u>Purpose</u>	<u>Due From</u>	<u>Due To</u>
NM Environment Department	Invoice for Services	\$ -	\$ 75
Total Due From / Due To		<u>\$ -</u>	<u>\$ 75</u>

NOTE 5: CAPITAL ASSETS

The capital asset activity for the year ended June 30, 2018 is as follows:

<u>Capital Assets Being Depreciated:</u>	<u>Balance, June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2018</u>
Furniture and Fixtures	\$ 42,167	\$ -	\$ -	\$ 42,167
Equipment and Machinery	9,982	-	-	9,982
Data Processing Equipment	5,393	-	-	5,393
Total	<u>57,542</u>	<u>-</u>	<u>-</u>	<u>57,542</u>
Less: Accumulated Depreciation for:				
Furniture and Fixtures	38,077	2,832	-	40,909
Equipment and Machinery	9,982	-	-	9,982
Data Processing Equipment	749	1,797	-	2,546
Total	<u>48,808</u>	<u>4,629</u>	<u>-</u>	<u>53,437</u>
Capital Assets, Net	<u>\$ 8,734</u>	<u>\$ (4,629)</u>	<u>\$ -</u>	<u>\$ 4,105</u>

The Department does not have any debt related to capital assets. Depreciation expense for the year ended June 30, 2018 was \$4,629 and was unallocated.

NOTE 6: OTHER LIABILITIES

As of June 30, 2018, other liabilities consist of \$9,936 of receipts held in suspense.

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 7: COMPENSATED ABSENCES PAYABLE

A summary of changes in compensated absences payable for the year ended June 30, 2018, is as follows:

	Balance, June		Balance, June		Amount Due
	30, 2017	Additions	Deletions	30, 2018	Within One
					Year
Compensated Absences	\$ 26,080	\$ 49,937	\$ 52,863	\$ 23,154	\$ 23,154
Total	\$ 26,080	\$ 49,937	\$ 52,863	\$ 23,154	\$ 23,154

Historically, all compensated absences have been paid out of the general fund.

NOTE 8: REVERSION 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 FY 2018 reversion to the State General Fund in the Statement of Revenues, Expenditures and Changes in Fund Balances consists of a \$595,866 reversion that was remitted to the state general fund for fiscal year ending June 30, 2018. There was no balance due to the State General Fund at June 30, 2018.

NOTE 9: NET POSITION / FUND BALANCES

The government-wide statement of net position reports \$222,335 of net position restricted by enabling legislation. The statement of net position reports \$15,108 of unrestricted net position (deficit). This deficit is the result of accrued compensated absences expense and depreciation expense.

The governmental funds balance sheet includes \$222,335 of restricted fund balance by enabling legislation, \$8,046 of assigned fund balance and unassigned fund balance of \$0.

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 10: 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, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. That report is also available on PERA’s website at www.pera.state.nm.us.

Funding Policy – Plan members are required to contribute 8.92% of their gross salary. The Department is required to contribute 16.59% of the gross covered salary. The contribution requirements of the plan members and the Board are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department’s employer contributions to PERA for the years ending June 30, 2018, 2017, and 2016 were \$82,565, \$105,342, and \$112,224, respectively, equal to the amount of the required contributions for each year.

NOTE 11: POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Compliant with the requirements of Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the State of New Mexico has implemented this standard for the fiscal year ended June 30, 2018.

The Department, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple-employer defined benefit postemployment health care plan that provides comprehensive group health insurance for persons who have retired from certain public service positions in New Mexico. The other postemployment benefits (OPEB) Plan is administered by the Retiree Health Care Authority of the State of New Mexico. Overall, total OPEB liability exceeds OPEB Plan net position resulting in a net OPEB liability. The State has determined the State's share of the net OPEB liability to be a liability of the State as a whole, rather than any agency or department of the State and the liability will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

See Independent Auditors’ Report

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE 11: POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(continued)**

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2018 and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

NOTE 12: TRANSFERS TO / FROM OTHER AGENCIES

The following are transfers to/ from other state agencies for the year ending June 30, 2018:

	<u>From Agency / Fund</u>	<u>To Agency / Fund</u>	<u>TITLE</u>	<u>TRANSFER</u>	
				<u>In</u>	<u>Out</u>
(1)	34101 / 85300	60900 / 04800	Department of Finance and Administration	\$ 3,030,400	\$ -
(2)	60900 / 04800	34101 / 85300	State General Fund	-	(595,866)
(3)	34100 / 69700	60900 / 04800	Tobacco Settlement Transfers	228,031	-
(4)	34103 / 01900	60900 / 89200	Severance Tax Bond Transfers	592,619	-
(4)	34103 / 11720	60900 / 89200	Severance Tax Bond Transfers	245,581	-
(4)	34103 / 20610	60900 / 89200	Severance Tax Bond Transfers	665,559	-
(4)	34103 / 35160	60900 / 89200	Severance Tax Bond Transfers	(93,163)	-
(4)	34103 / 40220	60900 / 89200	Severance Tax Bond Transfers	736,880	-
(4)	34103 / 43120	60900 / 89200	Severance Tax Bond Transfers	75,071	-
(4)	34103 / 50230	60900 / 89200	Severance Tax Bond Transfers	820,836	-
(4)	34103 / 50350	60900 / 89200	Severance Tax Bond Transfers	182,809	-
(4)	34103 / 50560	60900 / 89200	Severance Tax Bond Transfers	97,458	-
(4)	34103 / 73200	60900 / 89200	Severance Tax Bond Transfers	200,000	-
(5)	34103 / 35160	60900 / 89200	General Obligation Bond Transfers	499,811	-
(6)	34100 / 89200	60900 / 89200	Other Financing Sources	8,808,069	-
(7)	34100 / 10810	60900 / 93100	Other Financing Sources	106,000	-
			Total Transfers	\$ 16,195,961	\$ (595,866)

- (1) State General Fund Appropriation as per Laws 2017.
- (2) Reversion to State General Fund
- (3) Tobacco Settlement Program Fund Allotments
- (4) Severance Tax Bond Proceeds Capital Outlay (499705)
- (5) General Obligation Bond Proceeds (499805)
- (6) Tribal Infrastructure Fund Projects
- (7) Tribal Infrastructure Board Fund

See Independent Auditors' Report

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 13: 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, if any, 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.

The Department has also entered into an Intergovernmental Agreement with the New Mexico Environment Department for project oversight services in support of the Tribal Infrastructure Act. The agreement shall terminate on June 30, 2018. The Intergovernmental Agreement may be extended for up to three (3) years at the request of the Department, if agreed to by the Environment Department.

NOTE 14: RISK MANAGEMENT

The Indian Affairs Department is exposed to various risks of losses related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees or others; and natural disasters. Section 15-7-2 NMSA 1978 requires the General Services Department, Risk Management Division (RMD) to be responsible for the acquisition and administration of all insurance purchased by the State. The Department pays premiums to participate in the program.

The Department obtains its coverage through the Risk Management Division. This coverage includes liability and civil rights, property, vehicle, employee bond, workers' compensation, group insurance, and State unemployment. These coverage's are designed to satisfy the requirements of the State Tort Claims Act. Risk management expenditures for the Department are accounted for in the general fund. Any claims are processed through RMD. All employees of the Department were covered by blanket fidelity bond and money securities coverage by the State of New Mexico for the period July 1, 2017 through June 30, 2018.

NOTE 15: COMMITMENTS AND CONTINGENCIES

Capital Project Funding - The Department has future commitments to fund projects through June 30, 2020. These future project commitments are listed in detail in the Schedule of Capital Projects - Severance Tax Appropriations and State General Fund Appropriations.

Bond proceeds to fund these projects are allocated to the Department by the New Mexico State Legislature to administer disbursements to the project recipients. The Department is not obligated for any indebtedness related to these projects.

See Independent Auditors' Report

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 16: SUBSEQUENT EVENTS

The Department has evaluated subsequent events through October 12, 2018, which is the date the financial statements were available to be issued. No matters were identified for recognition in the accounts.

SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
COMBINING BALANCE SHEET – NON-MAJOR FUNDS
JUNE 30, 2018**

	IAD Grant (66700)	GF Reauthorization (93100)	Total
ASSETS			
Current Assets:			
Investment in State General			
Fund Investment Pool	\$ 8,046	\$ 245,835	\$ 253,881
Other Receivables	-	-	-
Total Assets	<u>\$ 8,046</u>	<u>\$ 245,835</u>	<u>\$ 253,881</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ -	\$ 23,500	\$ 23,500
Accrued Payroll	-	-	-
Other Liabilities	-	-	-
Due to Local Governments	-	-	-
Due to State General Fund	-	-	-
Due to Other State Agencies	-	-	-
Total Liabilities	<u>-</u>	<u>23,500</u>	<u>23,500</u>
FUND BALANCES			
Restricted	-	222,335	222,335
Assigned	8,046	-	8,046
Unassigned	-	-	-
Total Fund Balances	<u>8,046</u>	<u>222,335</u>	<u>230,381</u>
Total Liabilities and Fund Balances	<u>\$ 8,046</u>	<u>\$ 245,835</u>	<u>\$ 253,881</u>

See Independent Auditors' Report

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	IAD Grant (66700)	GF Reauthorization (93100)	Total
REVENUES			
Miscellaneous	\$ -	\$ -	\$ -
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES			
Current:			
Personal Services & Benefits	-	-	-
Contract Services	18,832	-	18,832
Other Costs	-	106,000	106,000
Compensated Absences Expense	-	-	-
Capital Outlay	-	-	-
Total Expenditures	<u>18,832</u>	<u>106,000</u>	<u>124,832</u>
Excess/(Deficiency)-Revenues over Expenditures	<u>(18,832)</u>	<u>(106,000)</u>	<u>(124,832)</u>
OTHER FINANCING SOURCES AND (USES)			
General Fund Appropriations	-	-	-
Severance Tax Bond Appropriations	-	-	-
Other Appropriations	-	106,000	106,000
Reversion to the State General Fund: FY18	-	-	-
Total Other Financing Sources and (Uses)	<u>-</u>	<u>106,000</u>	<u>106,000</u>
Net Change in Fund Balances	(18,832)	-	(18,832)
Fund Balances, Beginning	26,878	222,335	249,213
Fund Balances, Ending	<u>\$ 8,046</u>	<u>\$ 222,335</u>	<u>\$ 230,381</u>

See Independent Auditors' Report

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
SUPPLEMENTAL SCHEDULE OF GENERAL FUND APPROPRIATIONS
FOR THE YEAR ENDED JUNE 30, 2018**

Fund	Type	Laws	Chap- ter	Original Budget	Funds Reauthorized	Funds Reverted	Final Budget	Prior Year Expenditures	Current Year Expenditures	Expenditures from Appropriated	Funds Received	Outstanding Encumbrances	Balance Available
93100	Fund Balance	2017	133	\$ -	\$ 39,674	\$ -	\$ 39,674	\$ 27,339	\$ -	\$ 27,339	\$ 39,674	\$ 12,335	\$ -
93100	Fund Balance	2017	133	-	210,000	-	210,000	-	-	-	210,000	6,197	203,803
93100	DFA Cash Balance	2010	37	200,000	-	-	200,000	-	106,000	106,000	106,000	94,000	-
93100	DFA Cash Balance	2010	37	<u>193,020</u>	<u>-</u>	<u>-</u>	<u>193,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>193,020</u>
Total General Fund Appropriations				<u>\$ 393,020</u>	<u>\$ 249,674</u>	<u>\$ -</u>	<u>\$ 642,694</u>	<u>\$ 27,339</u>	<u>\$ 106,000</u>	<u>\$ 133,339</u>	<u>\$ 355,674</u>	<u>\$ 112,532</u>	<u>\$ 396,823</u>

See Independent Auditors' Report

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
SUPPLEMENTAL SCHEDULE OF SEVERANCE TAX BONDS
FOR THE YEAR ENDED JUNE 30, 2018**

Fund	Laws	Chapter	Bonds Appropriated	Bonds Sold	Original Budget	Amounts AIPP	Funds Reauthorized	Funds Reverted	Final Budget	Funds Received	Expended To Date	Balance Available
89200	2006	126	\$ 200,000	\$ 200,000	\$ 200,000	\$ -	\$ -	\$ -	\$ 200,000	\$ 200,000	\$ 200,000	\$ -
89200	2010	37	70,889,002.00	70,889,002.00	62,057,077.00	-	-	(1,676,246.00)	60,380,831.00	44,659,175.00	44,659,175.00	15,721,656.00
89200	2010	105	594,000.00	594,000.00	594,000.00	-	-	-	594,000.00	592,619.00	592,619.00	1,381.00
89200	2012	54	500,000.00	500,000.00	500,000.00	-	-	-	500,000.00	500,000.00	500,000.00	-
89200	2013	147	500,000.00	500,000.00	500,000.00	-	-	(4,045.00)	495,955.00	495,955.00	495,955.00	-
89200	2013	226	2,539,042.00	2,539,042.00	2,539,042.00	(7,845.00)	(99,327.00)	(32,793.00)	2,399,077.00	2,329,399.00	2,329,399.00	69,678.00
89200	2014	65	4,500,000.00	4,500,000.00	4,500,000.00	(40,000.00)	-	-	4,460,000.00	4,459,811.00	4,459,811.00	189.00
89200	2014	66	3,583,411.00	3,583,411.00	3,583,411.00	(10,657.00)	(1,167,564.00)	(92,171.00)	2,313,019.00	2,289,721.00	2,289,721.00	23,298.00
89200	2014	147	80,000.00	80,000.00	80,000.00	-	(80,000.00)	-	-	-	-	-
89200	2015	3	5,906,500.00	5,906,500.00	5,906,500.00	(8,005.00)	(355,000.00)	(662,388.00)	4,881,107.00	3,661,934.00	3,661,934.00	1,219,173.00
89200	2015	66	75,000.00	75,000.00	75,000.00	-	-	(75,000.00)	-	-	-	-
89200	2015	147	275,000.00	275,000.00	275,000.00	-	-	(58,445.00)	216,555.00	216,555.00	216,555.00	-
89200	2015	226	50,000.00	50,000.00	50,000.00	-	-	(50,000.00)	-	-	-	-
89200	2016	81	3,443,840.00	3,443,840.00	3,443,840.00	(6,750.00)	(146,000.00)	(1,035.00)	3,290,055.00	1,704,743.00	1,704,743.00	1,585,312.00
89200	2017	133	-	-	-	-	888,327.00	-	888,327.00	159,078.00	159,078.00	729,249.00
89200	2018	68	-	-	-	-	207,564.00	-	207,564.00	95,000.00	95,000.00	112,564.00
89200	2018	80	3,740,764.00	3,378,264.00	-	(4,258.00)	150,000.00	-	145,742.00	-	-	145,742.00
Total Severance Tax Bonds			\$ 96,876,559	\$ 96,514,059	\$ 84,303,870	\$ (77,515)	\$ (602,000)	\$ (2,652,123)	\$ 80,972,232	\$ 61,363,990	\$ 61,363,990	\$ 19,608,242

See Independent Auditors' Report

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
NOTES TO SUPPLEMENTAL SCHEDULE OF SEVERANCE TAX BONDS
JUNE 30, 2018**

Severance Tax Bond (STB) Reauthorization Fund

Severance tax bond proceeds receivable as of June 30, 2018, appropriated to the Department, were held by the State Board of Finance to reimburse expenditures incurred by the Department. The activity of this account is as follows:

Balance, Beginning of Year	\$ 27,337,836
Sale and Reauthorization of Severance Tax Bonds	5,910,134
Funding from the State Board of Finance	(12,831,529)
Reversion to the State Board of Finance	<u>(808,199)</u>
Balance, End of Year	<u>\$ 19,608,242</u>

The funding for the year ended June 30, 2018 was received under the Laws of 2006, Chapter 126, Laws of 2010, Chapters 37 and 105; Laws of 2012, Chapter 54; Laws of 2013, Chapters 147 and 226; Laws of 2014, Chapters 65, 66 and 147; Laws of 2015, Chapters 3, 66, 147 and 226; Laws of 2016, Chapter 81; Laws of 2017, Chapter 133, and Laws of 2018, Chapters 68 and 80.

The State of New Mexico Legislature has authorized the State Board of Finance to issue and sell revenue bonds that are to be retired using future taxes levied against the extractive industries in the state. The proceeds from bonds sold are appropriated to the Department to be used for specific programs and are recorded as revenues by the Department. Expenditures incurred by the Department for such programs are reimbursable from the State Board of Finance. The Department of Finance and Administration revised the accounting policy for the State regarding Severance Tax Bond draws; as a result, the Department did not record inter-agency receivables and payables for the year end accruals, instead adjusting Cash Equivalents – Investment in SGFIP.



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

Honorable Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico
and
Suzette Shije, Acting Cabinet Secretary
Office of the District Attorney, Indian Affairs Department
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of 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, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report dated October 12, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Kubiak Melton & Associates, LLC

Kubiak Melton & Associates, LLC
Auditors – Business Consultants - CPAs

Albuquerque, New Mexico
October 12, 2018

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018**

Section I – Current Year Findings

There were no current year findings.

Section II – Status of Prior Year Findings

2011-001 [2011-1] – Department Failed to Revert Funds (Significant Deficiency) - Resolved

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
EXIT CONFERENCE
JUNE 30, 2018**

The contents of this report were discussed at an exit conference held October 12, 2018. Indian Affairs Department, was represented by:

- Suzette Shije, Acting Cabinet Secretary
- Drew Roybal-Chavez, CFO
- Chandler Kahawai, Accountant and Auditor
- Andrew Romero, Accountant and Auditor
- Jeremy F. Romero, Consultant

The firm of Kubiak Melton and Associates, LLC was represented by:

- Daniel O. Trujillo, CPA, CFE, CGFM, CGMA

The audited financial statements of the Indian Affairs Department were prepared from the original books and records provided by and with the assistance of the management of the Office and Kubiak Melton and Associates, LLC.