



**FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT  
AUDITORS**

**JUNE 30, 2013**

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

**Official Roster**

**Year Ended June 30, 2013**

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

## REPORT OF INDEPENDENT AUDITORS

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the general fund, the aggregate remaining fund information and the budgetary comparisons of the general fund of the State of New Mexico Taxation and Revenue Department (Department) as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the Department's non-major governmental and fiduciary funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2013, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

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effectiveness of 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 that 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, the general fund, and the aggregate remaining fund information of the State of New Mexico Taxation and Revenue Department as of June 30, 2013, and the respective changes in financial position thereof and the budgetary comparisons of the general fund 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 previously present fairly, in all material respects, the respective financial position of each non-major governmental and fiduciary funds of the Department as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, the aggregate remaining fund information and all respective budgetary comparisons of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not present fairly the financial position of the entire State of New Mexico as of June 30, 2013, and the changes in the financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Demesia Padilla, CPA, Cabinet Secretary  
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Santa Fe, New Mexico

### ***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 6 through 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements, the combining and individual fund financial statements and budgetary comparisons. The accompanying schedule of special appropriations, schedule of fiduciary fund inter-agency transfers, schedule of changes in fiduciary assets and liabilities, and schedule of cash balances as required by the New Mexico State Audit Rule and the schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of special appropriations, schedule of fiduciary fund inter-agency transfers, schedule of changes in fiduciary assets and liabilities, schedule of cash balances and schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of special appropriations, schedule of fiduciary fund inter-agency transfers, schedule of changes in fiduciary assets and liabilities, schedule of cash balances and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013 on our consideration of the State of New Mexico Taxation and Revenue 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 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.

A handwritten signature in black ink that reads "Mess Adams LLP". The signature is written in a cursive, flowing style.

Albuquerque, New Mexico  
December 5, 2013

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

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

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

**Financial Highlights**

The assets of the New Mexico Taxation and Revenue Department exceeded its liabilities at the close of the most recent fiscal year by \$41,254,122 (net position).

The Department's net position increased by \$748,819.

The total cost of all Department programs (net of program revenue) was \$84,049,482.

**Department Highlights**

**FY 2013 TRD Collections and Distributions**

**Net Collections:** TRD collected a total of \$7.4 billion in FY13. Combined reporting system taxes (gross receipts, withholding and compensating taxes) were the single largest category of collections at \$4.3 billion, or 58%, of total collections. Mineral extraction taxes were next at \$1.0 billion, or 14%. Income taxes were \$872 million, or 12%. Motor vehicle taxes and fees were \$348.5 million, or 5%, and other state funds were \$866 million, or 11%.

**Net Distributions:** TRD distributed a total of \$7.8 billion in FY13. Of those distributions; \$4.1 billion, or 52%, was distributed to the State General Fund, \$1.6 billion, or 20%, was distributed to local governments, \$285 million, or 4%, was distributed to the New Mexico Department of Transportation, and \$1.8 billion, or 24%, was distributed to other state funds.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

Revenue Enhancement Efforts

The Department continued its tax compliance efforts in fiscal year 2013 (FY13). The total FY13 compliance effort was \$319.6 million, including collections. The increase from FY12 was due in part to the inclusion of prior year payment reversals and an increase in credit denials.

The GenTax integrated tax system was upgraded to version 9, which allows streamlined functionality by automating processes that were previously manual. This was a major four level upgrade which has resulted in a substantial learning curve and time-consuming system stabilization efforts, which continue to manifest in both audit and collections. These issues are typical of any new software upgrade on this scale. Preparation and training were exceptional, and major Tax Administration human resources were utilized. The project was very well managed and considered successful by all reasonable measures.

The Amnesty Program, mandated in the 2010 Legislative Special Session, was implemented in FY11 and continued through FY12 and FY13. At the end of FY13, a total of 9,000 applications had been processed and \$47.4 million had been collected on Amnesty assessments of \$53.9 million. This represents an 88% collection rate. Original projections were approximately 3,500 applications resulting in assessments of \$27 million.

Compliance Enforcement Program

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

In fiscal year 2013, there were three criminal cases referred to the district attorney's offices with prosecution recommendations. From fiscal year 2003 through the end of fiscal year 2013, sixty-one out of sixty-two TFID cases have been successfully prosecuted, resulting in a 98% successful prosecution rate.

During fiscal year 2013, the TFID Internal Audit Bureau completed twenty-four Internal Audits; twelve were performed for the Motor Vehicle Division (MVD), eight for the Audit and Compliance Division (ACD) and four for the Taxation and Revenue Department (TRD).

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

During fiscal year 2013, the Internal Investigations Bureau received nineteen internal investigation referrals and/or investigation requests. Sixteen of those investigations were completed during fiscal year 2013. The sixteen completed investigations involved the following divisions:

<b>Division/Department</b>	<b>Internal Investigations Completed in Fiscal Year 2013</b>
Motor Vehicle Division	13
Audit and Compliance Division	2
Information Technology Division	1
<b>Total</b>	<b>16</b>

GenTax and E-Filing

Progress has continued on the goal to enhance GenTax, the integrated tax system for the Department, with 28 tax programs now housed in the GenTax system. The major initiative that the GenTax Bureau successfully completed in FY13 was the completion of the first two phases of the GenTax System Upgrade to Version 9.

Other initiatives that the GenTax Bureau staff completed in FY13 include the following:

- Completion of E-Check option for 16 Tax programs.
- Filing history page changes with new search criteria for taxpayers.
- Mandatory E-Filing with Combined Reporting System (CRS) 3<sup>rd</sup> run notification letters.
- Redesign of e-file tax applications web user interface to incorporate a more standard look and feel.
- Implementation of the Personal Income Tax (PIT) Net E-file application to enable taxpayers to file online.
- Enhancements to the Weight Distance and E-Permits systems.
- Enhancements to the Federal/State Modern E-file System for mandatory federal compliance.
- Continuation of the warrant reconciliation project to extract warrant information from SHARE and upload into GenTax process.
- Ongoing efforts also include creating data reports to assist in reconciliation of transactions and improve compliance.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

Major initiatives the GenTax Bureau staff will be engaged in during FY14 include the completion of the third and final phase of the GenTax System Upgrade to Version 9 which involves the development, and implementation of a Business Credit Manager Module in GenTax. The other major initiative for FY14 is to begin the move of the 9 E-file tax applications from the current legacy standalone E-file platform into the Taxpayer Access Point (TAP) environment in GenTax.

Infrastructure/Networking

The Information Technology Division (ITD) provides technology services, network and internet resources to assist the Department. The internal and external network infrastructure underwent continuous improvement efforts to ensure availability and security.

The Desktop Support Team closed 4,418 Help Star tickets in FY13 originating from all divisions.

The virtual environment was expanded with another 12 hosts, supporting a migration effort of existing physical servers, as well as the implementation of new servers.

The Division replaced two aging Storage Area Network systems increasing available storage to the agency. The aging tape backup system was replaced with a redundant DataDomain disk backup system. All existing servers that were currently backed up to tape were migrated to the new system, which allowed for backups to complete in hours, rather than the days it was taking with tape.

The Division participated in multiple projects to support the Motor Vehicle Division. Major efforts included providing support for the new Q-Matic Orchestra system, installing required desktop software and 42 new servers across three different environments for the Document Management System (DMS), and participating in the MVD Visioning workshops for the Modernization project.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

Delinquent Property Accounts

The Property Tax Division (PTD), Delinquent Property Tax Bureau is responsible for the collection of real property taxes that have become delinquent for more than two years. During FY13, the Bureau resolved a total of 11,956 delinquent property accounts, 10,623 accounts by field collections and 1,333 accounts through property tax sales. Collections netted \$4,091,881 in penalty and interest, \$1,190,839 in State Cost and \$70,866 on Installment Agreements for total overall collections of \$5,353,586, all of which funds the Property Tax Division. Approximately \$13.4 million in base taxes were returned to the counties during FY13.

Field collections resolved 10,623 accounts or 88.9% of the total resolved delinquent property accounts. The amount of penalty and interest collected through field collections was \$3,777,504 or 92.3% of the total penalty and interest collected. Field collections netted \$1,054,228 in State Cost or 88.6% of the total State Cost collected.

Installment Agreements are executed when delinquent taxpayers need time to meet their obligations. These payment contracts generally have a 36 month term. Penalty and interest collections from Installment Agreements totaled \$184,459. State Cost from Installment Agreements totaled \$76,050.

Accounts that are not resolved through field collections or installment agreements are scheduled for sale. There were 32 property tax sales in 29 counties conducted in FY13. The number of accounts offered for sale was 2,209. Property Tax Sales resolved 1,333 accounts or 11.1% of the total resolved delinquent property accounts. It is important to note that only 494 accounts, 4.1% of delinquent accounts, were resolved by actual sale. The other 839 accounts were paid or placed on installment agreements before the tax sale. The amount of penalty and interest collected through sales was \$129,918 or 3.2% of the total penalty and interest collected. Sale collections also netted \$60,561 in State Cost which equates to 5.1% of the total State Cost collected.

The Property Tax Division's Delinquent Property Tax Bureau increased the number of tax sales held to 32 in 29 counties in FY13. PTD is statutorily mandated to hold one sale in each of New Mexico's 33 counties in FY14 as well as multiple sales in individual counties as needed. The emphasis on sales has created a positive result for collections. The Property Tax Division made roughly 3.5% of its revenue on sales in FY12. That figure was consistent at 3.6% in FY13. The ratio of accounts resolved by the sales process to sales that entered the sales process was approximately 60%. That figure will decrease in the coming year due to PTD attempting bulk sales with a less satisfactory result. The continuing increase in base taxes returned to the counties and the continued ability to fund PTD is highly positive for the counties and the Division.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

Electronically Filed Tax Returns

The Revenue Processing Division (RPD) received approximately 825,183 Personal Income Tax (PIT) returns and 1,010,272 Combined Reporting System (CRS) gross receipts tax returns that were filed electronically. These returns amount to 79% of all incoming PIT returns and 84% of all CRS returns received by the Department.

In addition, RPD received and processed 77,406 PIT returns with a 2-D Bar code. These returns are paper returns that are mailed in, where data from the returns is electronically read from the 2-D bar code as the return is processed through the scanning equipment and the information is then uploaded into the system automatically without manual data entry. Approximately 18% - 25% of the electronically filed returns do not meet edit criteria and must be reviewed by the edit error staff.

The Division continues administering the Native American Veterans Income Tax Settlement fund (NAVITS) appropriations which will be exhausted early in 2014. Total claims received were 1,446. The Department issued 780 refunds for a total of \$1,058,513. The Department denied 662 claims and 4 claims were filed untimely.

Motor Vehicle

The Motor Vehicle Division (MVD) has implemented and is continuing to implement various initiatives to meet customer expectations by providing services that are consistent, timely, accurate, confidential and efficient. MVD has achieved significantly improved service outcomes during FY13, including the following accomplishments:

- **Field Office and Call Center Wait Time Reduction**  
MVD achieved eight year lows for both metrics in FY13 Q2.
- **Expressia Customer Satisfaction Tracking System**  
MVD implemented the country's first transactions-based motor vehicle office customer satisfaction tracking system, and is currently achieving a 97 percent average for good/excellent ratings on transactions across the field office network (compared to an average of less than 1.5 percent for poor/unacceptable ratings), with about 10,000 customer inputs per week.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

- **Customer Outcomes Re-Engineering (CORE)**  
Developed and initiated implementation of CORE in MVD field offices. CORE is a rapid-attack initiative to raise customer outcomes in field offices while introducing control processes to sustain improvements with objective accountability metrics. Target performance for CORE: 50 percent reduction in field office wait time; 50 percent customer utilization of Expressia with less than 1 percent poor/unacceptable customer rating. Using CORE, the Carlsbad MVD office went from a 96 minute average wait time to a 3 minute average wait time from October to November in 2012. As a component of CORE, MVD launched MVD Community Appreciation Day, an event that is held in the local community once a CORE implementation has been completed.
- **On-Line Renewal of Drivers' Licenses**  
On-line renewal of drivers' licenses is available to most renewing license holders, resulting in enhanced customer convenience and reduced burden on field office operations. MVD is currently processing about 800 online driver's licenses per week.
- **MVD Reengineering/Modernization Project**  
The MVD/ITD team has been actively pursuing a Driver/Vehicle System Reengineering and Modernization Project to replace the Agency's 30-year-old antique and patchwork driver and vehicle systems with an efficient, modern customer-centric system. The current competitive-bid procurement effort began with publication of an RFP in January 2013. A tentative vendor selection has been made, with a contract award expected by the end of October 2013 and project commencement expected by the calendar year end.
- **Commercial Driver's License Issuance System (CDLIS) Modernization**  
Completed in-house development and implementation of the CDLIS modernization project.
- **Vehicle Registration Suite (VRS)**  
Implemented the VRS, which enables auto dealers to issue print-on-demand temporary tags, using a web-based system, for vehicles in their inventory and at the time of sale. When a tag is issued using VRS, the data is immediately available to MVD and law enforcement agencies, which promotes officer safety and prevents fraud and auto theft.
- **IFTA/IRP System**  
Implemented a new/replacement IFTA/IRP system to more effectively and efficiently manage intrastate and interstate commercial vehicle registrations and tax collection. The new system is more user-friendly for the Commercial Vehicles Unit; offers commercial vehicle owners/operators more flexibility in managing their accounts and paying taxes; and improves tax compliance.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

- **Document Management System (DMS)**  
Completed implementation of a new Document Management System (DMS), an electronic capture, storage and retrieval system that can efficiently manage 12 million documents annually. The DMS aligns with Real ID compliance and will streamline research processes, eliminate microfilming, enable real time revenue collection processes, increase our ability to flag fraudulent documents, and audit all transaction types.
- **DL/ID Identity Theft Designation**  
Implemented the Identity Theft designation on driver's licenses (DLs) and identification cards (IDs).
- **DL/ID Veteran Designation**  
Implemented the Veteran designation on DLs and IDs for qualifying veterans.
- **HAZPrint Program**  
Implemented the TSA-approved HAZPrint program, which enables CDL holders to be fingerprinted at a reduced cost at any HAZPrint facility nationwide.
- **CEU Training for Non-Franchise Auto Dealers**  
Assisted and provided oversight to the New Mexico Independent Automobile Dealers Association (NMIADA) of a new CEU training program for non-franchise auto dealers.
- **Improved Medical Reports and Procedures**  
Improved medical and vision report forms and procedures to facilitate issuance of drivers' licenses to qualifying individuals with medical and vision conditions.
- **Driver Education Schools Permitting and Testing**  
The Driver Education Schools permit process and knowledge skills testing are now automated and tracked between the schools and field offices. All instruction permits are now entered and tracked in MVD's systems, so that law enforcement can look up the student driver for permit verification.
- **Quality New Mexico Piñon Award**  
MVD received Quality New Mexico Piñon Recognition for Commitment to Performance Excellence.

The improved service outcomes were achieved through a business plan approach which maximized MVD's operational resources along with fund balances.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

**Overview of the Financial Statements**

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

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

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

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

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

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

The non-major funds include the Property Valuation Special Revenue Fund, in which funds are legally restricted for loans to counties to assist them with residential and non-residential property valuations.

The Department has two types of funds:

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

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

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

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

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

The budgetary comparison schedules present both the original and the final appropriated budgets for the reporting period as well as the actual inflows, outflows and balances, stated on the government's budgetary basis. As required by the Office of the State Auditor in 2 NMAC 2.2, the Statements of Revenues and Expenditures – Budget and Actual are also presented. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

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

**Net Position:** Total Department net position for fiscal year ended June 30, 2013 is \$41,254,122. However, most of those assets are either restricted as to the purposes they can be used for or are invested in capital assets (buildings, equipment, etc.). The restricted net position in Governmental Activities is \$34,074,594 at the end of the fiscal year.

**The Department's Net Position**

	2013	2012
Assets		
Current and other assets	\$ 41,471,998	42,803,877
Capital assets	<u>8,411,118</u>	<u>8,746,933</u>
<b>Total assets</b>	<b><u>49,883,116</u></b>	<b>51,550,810</b>
Liabilities		
Current liabilities	<u>8,628,994</u>	<u>11,045,507</u>
<b>Total liabilities</b>	<b><u>8,628,994</u></b>	<b>11,045,507</b>
Net Position		
Net investment in capital assets	8,411,118	8,746,933
Restricted	34,074,594	33,345,997
Unrestricted (deficit)	<u>(1,231,590)</u>	<u>(1,587,627)</u>
<b>Total net position</b>	<b><u>\$ 41,254,122</u></b>	<b>40,505,303</b>

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

**Governmental Activities:** The table below summarizes the Department's activities for the fiscal years ended June 30, 2013 and 2012. Total change in net position from the previous fiscal year was \$748,819.

**The Department's Governmental Activities**

	2013	2012
Program expenses	\$ (87,165,244)	(78,280,586)
Program revenue	<u>3,115,762</u>	<u>1,397,749</u>
<b>Net program (expense) revenue</b>	<b><u>(84,049,482)</u></b>	<b><u>(76,882,837)</u></b>
General revenues	<b>87,845,989</b>	93,698,055
Transfers and reversions	<u>(3,047,688)</u>	<u>(3,804,863)</u>
<b>Net general revenues, transfers and reversions</b>	<b><u>84,798,301</u></b>	<b><u>89,893,192</u></b>
<b>Change in net position</b>	<b>748,819</b>	13,010,355
Net position, beginning	<u>40,505,303</u>	<u>27,494,948</u>
<b>Net position, ending</b>	<b><u>\$ 41,254,122</u></b>	<b><u>40,505,303</u></b>

Revenues for the governmental activities totaled \$90,961,751 and \$95,095,804 in the fiscal years ended June 30, 2013 and 2012, respectively. The decrease is primarily attributable to special appropriations received in FY12 for ONGARD and GenTax upgrade.

The Department's total expenditures for government-type activities during the fiscal year were \$87,165,244. Approximately 59.5% of the expenditures of the Department are in the area of personnel services and employee benefits. The second highest area of expenditure within the Department is in the category of other costs (19.4%). The majority of this amount was used to support the general operations of the Department such as computer usage, telecommunications, printing motor vehicle forms and tax forms, postage, and leases for rent of office space.

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

**Governmental Funds:** The General Fund of the Department is used to account for the Department's primary operations. Of the total fund balance of \$34,462,711, \$11,963,864 is legally committed for items funded with special appropriations received by the Department. An additional \$21,686,810 is designated for subsequent year expenditures related to the Department's non-reverting programs.

The Property Valuation special revenue fund is used to fund loans to counties to assist them with residential and non-residential property valuations. The fund balance of \$423,920 is legally committed for this purpose.

During FY13, capital asset activity included \$11,829 of capital outlay purchases for purchases of furniture and fixtures, \$131,735 for data processing equipment, \$223,596 for machinery and equipment, and \$2,047,883 in software enhancements to the Department's major computer processing systems.

**Fund Balance:** As the Department completed the year, its governmental funds reported a combined fund balance of \$34,886,631.

**General Fund Budgetary Highlights**

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

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

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

Changes between the original and final budgets were \$3,812,443 for the Operating Fund. The \$3,812,443 difference between the original operating revenue budget and the final operating revenue budget included \$2,698,750 in prior year cash balance re-budgeted for Motor Vehicle Division initiatives.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

The Operating Budget for Revenues classified as Other State Funds increased from \$24,501,200 to \$24,542,176 or \$40,976. This was a .017% increase from the original Operating Budget. Actual revenues collected which are classified as Other State Funds, were \$26,351,686 or \$1,809,510 higher than the Operating Budget Amount. This represents a 7.4% increase over the budgeted amount.

Actual Federal grants revenue collected was \$1,059,187, which represents a 42% decrease over the budget amount. Ninety two percent (92%) of all Federal grant revenue is attributable to the Office of Natural Resources Revenue (ONRR) formerly Minerals Management Service (MMS).

Budget adjustments for the Operating Fund were 4.4% of the original budget. The increases were from Federal funds, Other State Funds and re-budgeted fund balance.

The majority of the increases from the original budget to the final budget pertain to Motor Vehicle Initiatives, which are supported by revenues related to sale of MVD data, and the Motor Vehicle Division and Enhanced Drivers' License Fee fund balance.

**Capital Assets and Debt Administration**

At the end of fiscal year 2013, the Department has invested a total of \$31,895,942 in governmental-type activities in capital assets. This amount represents a net increase (including additions and deductions) of \$1,809,553 (6.0%) over last year's figure of \$30,086,389 in gross capital assets without taking accumulated depreciation into account.

**The Department's Capital Assets**

	2013	2012
Furniture and fixtures	\$ 1,125,527	1,223,603
Software	21,350,635	19,302,752
Data processing equipment	5,592,063	5,929,504
Machinery and equipment	3,032,501	2,835,314
Tenant leasehold improvements	712,762	712,762
Vehicles	82,454	82,454
	<u>31,895,942</u>	30,086,389
Accumulated depreciation	<u>(23,484,824)</u>	(21,339,456)
<b>Net total</b>	<b><u>\$ 8,411,118</u></b>	<b>8,746,933</b>

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

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

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

**Economic Factors and Next Year's Budgets and Rates**

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

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

The Department's operating budget for fiscal year 2014 is \$84,439,800 and includes 1,109.0 full time equivalents (FTE). This represents a 4.1% increase from FY13 primarily from the Other State Funds appropriation.

In addition, two special appropriations were extended through FY14 and FY15. The \$8,042,500 and the \$8,300,000 to replace the 30-year-old common business oriented language-based driver and vehicle systems funded with MVD cash balances and revenue.

**Performance Measures**

The Department collects data to measure success in meeting performance measure targets to address the requirements for the Accountability in Government Act (AGA), Sections 6-3A-1 through 6-3A-8 NMSA 1978. Fiscal year 2013 was the twelfth year the Department submitted performance based and program budgets. The Department continues to work with the Legislative Finance Committee (LFC) and the State Budget Division to report and streamline measures that are meaningful and useful.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

<b>Type of Measure</b>	<b>HB2 Measure</b>	<b>FY13 Target</b>	<b>FY13 Result</b>
	<b>Tax Administration Program</b>		
Output	Percent of electronically filed returns (PIT, CRS)	65%	85%
Outcome	Collections as a percent of collectable audit assessments generated in the current fiscal year	45%	66.2%
Outcome	Collections as a percent of collectables outstanding balances from the end of the prior fiscal year	15%	17.6%
	<b>Motor Vehicle Program</b>		
Efficiency	Average call center wait time to reach an agent, in minutes	6	6.52
Outcome	Percent of registered vehicles with liability insurance	92%	91%
Efficiency	Average wait time in Q-Matic equipped offices, in minutes	20	24.42
	<b>Property Tax Program</b>		
Output	Percent of appraisals and valuations for companies conducting business within the state subject to state assessment	100%	100%
Outcome	Percent of counties in compliance with sales ratio standard of eighty-five percent assessed value to market value	90%	97%
	<b>Compliance Enforcement Program</b>		
Outcome	Number of tax investigations referred to prosecutors as a percent of total investigations assigned during the year	40%	67%
	<b>Program Support</b>		
Outcome	Percent of driving-while-intoxicated drivers license revocations rescinded due to failure to hold hearings within ninety days	4%	0.50%

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2013**

**Contacting the Agency's Financial Management**

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

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
STATEMENT OF NET POSITION  
June 30, 2013**

	<b>Governmental Activities</b>
	<hr/>
<b>ASSETS</b>	
Unrestricted cash on hand	\$ 25,153
Interest in the State Treasurer General Fund	
Investment Pool	
Unrestricted	35,072,578
Restricted for loans to counties	394,969
Receivables	
Due from federal government	857,804
Loans to counties, net	28,917
Other receivables, net	2,358
Due from external parties	4,299,595
Due from other state agencies	3,740
Prepaid expenses	17,556
Inventory of supplies	769,328
Capital assets, net	8,411,118
	<hr/>
<b>Total assets</b>	<b>49,883,116</b>
	<hr/>
<b>LIABILITIES</b>	
Accounts payable	4,690,587
Accrued payroll	1,059,438
Due to external parties	560
Due to other state agencies	2,761
Due to State General Fund	799,974
Other training liabilities	32,047
Compensated absences	2,043,627
	<hr/>
<b>Total liabilities</b>	<b>8,628,994</b>
	<hr/>
<b>NET POSITION</b>	
Net investment in capital assets	8,411,118
Restricted for special appropriations	15,277,759
Restricted for loans to counties	423,920
Restricted for other purposes	18,372,915
Unrestricted (deficit)	(1,231,590)
	<hr/>
<b>Total net position</b>	<b>\$ 41,254,122</b>
	<hr/> <hr/>

*See Notes to Financial Statements.*

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2013

	<u>Program Support</u>	<u>Tax Administration Act</u>	<u>Motor Vehicle Program</u>	<u>Property Tax Program</u>	<u>Compliance Enforcement</u>	<u>Governmental Activities</u>
Program Expenses	\$ 25,440,392	29,129,659	27,963,805	2,823,439	1,807,949	87,165,244
<b>Total program expenses</b>	25,440,392	29,129,659	27,963,805	2,823,439	1,807,949	87,165,244
Program Revenues						
Federal operating grants	-	978,734	2,137,028	-	-	3,115,762
<b>Total program revenues</b>	-	978,734	2,137,028	-	-	3,115,762
Net Program Expense	<u>(25,440,392)</u>	<u>(28,150,925)</u>	<u>(25,826,777)</u>	<u>(2,823,439)</u>	<u>(1,807,949)</u>	<u>(84,049,482)</u>
General Revenues						
Other state funds:						
Delinquent Property Tax Penalty and Interest						4,970,057
Weight Distance Administrative Fees						3,444,267
MVD Administrative Fees						17,002,813
Other Administrative Fees						7,430,843
<b>Total general revenues</b>						<u>32,847,980</u>
Transfers and Reversions						
State General Fund appropriations						53,342,100
Transfers from other state agencies						1,021,733
Transfers to other state agencies						(1,610,876)
Other sources						634,176
Other transfers						(634,176)
Reversions to State General Fund - FY13						(802,636)
<b>Total transfers and reversions</b>						<u>51,950,321</u>
Net General Revenues, Transfers and Reversions						<u>84,798,301</u>
<b>Change in net position</b>						<u>748,819</u>
Net position, beginning of year						40,505,303
<b>Net position, end of year</b>						<u>\$ 41,254,122</u>

See Notes to Financial Statements.

## **FUND FINANCIAL STATEMENTS**

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2013

	<u>Major Funds</u> <u>General</u>	<u>Other Governmental</u> <u>Funds</u>	<u>Total Governmental</u>
<b>ASSETS</b>			
Interest in the State Treasurer General Fund			
Investment Pool	\$ 35,072,578	394,969	35,467,547
Cash on hand	25,153	-	25,153
Receivables			
Due from federal government	857,804	-	857,804
Loans to counties, net	-	28,917	28,917
Other receivables, net	2,358	-	2,358
Due from:			
Other funds	5,092,902	-	5,092,902
Other state agencies	3,706	34	3,740
Inventory of supplies	769,328	-	769,328
Prepaid expenses	17,556	-	17,556
	<hr/>		<hr/>
<b>Total assets</b>	<b>\$ 41,841,385</b>	<b>423,920</b>	<b>42,265,305</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 4,690,587	-	4,690,587
Accrued payroll	1,059,438	-	1,059,438
Due to external parties	560	-	560
Due to other funds	793,307	-	793,307
Due to other state agencies	2,761	-	2,761
Due to State General Fund	799,974	-	799,974
Other liabilities	32,047	-	32,047
	<hr/>		<hr/>
<b>Total liabilities</b>	<b>7,378,674</b>	<b>-</b>	<b>7,378,674</b>
Fund Balances			
Nonspendable			
Cash on hand	25,153	-	25,153
Inventory of supplies	769,328	-	769,328
Prepaid expenses	17,556	-	17,556
Restricted	11,963,864	-	11,963,864
Committed	21,686,810	423,920	22,110,730
	<hr/>		<hr/>
<b>Total fund balances</b>	<b>34,462,711</b>	<b>423,920</b>	<b>34,886,631</b>
	<hr/>		<hr/>
<b>Total liabilities and fund balances</b>	<b>\$ 41,841,385</b>	<b>423,920</b>	<b>42,265,305</b>

See Notes to Financial Statements.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
Year Ended June 30, 2013**

<b>Total Fund Balances - Governmental Funds  (Governmental Fund Balance Sheet)</b>	<b>\$ 34,886,631</b>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets not included in the governmental funds, but capitalized in the Statement of Net Position	31,895,942
Accumulated depreciation recorded in the Statement of Net Position, but not recorded in the governmental funds	(23,484,824)
	<u>8,411,118</u>
Compensated absences recorded in the Statement of Net Position, but not recorded in the governmental funds	(2,043,627)
	<u>(2,043,627)</u>
<b>Net position of governmental activities (Statement of Net Position)</b>	<b>\$ 41,254,122</b>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
June 30, 2013**

	<u>Major Funds</u> <u>General</u>	<u>Other Governmental</u> <u>Funds</u>	<u>Total Governmental</u>
Revenues			
Other state funds	\$ 32,846,488	1,492	32,847,980
Federal funds	3,115,762	-	3,115,762
<b>Total revenues</b>	<b>35,962,250</b>	<b>1,492</b>	<b>35,963,742</b>
Expenditures			
Current			
Personal services and employee benefit	51,883,670	-	51,883,670
Contractual services	16,136,363	-	16,136,363
Other costs	16,940,532	-	16,940,532
Capital outlay	2,415,043	-	2,415,043
<b>Total expenditures</b>	<b>87,375,608</b>	<b>-</b>	<b>87,375,608</b>
Excess (Deficiency) of Revenue:			
Over Expenditures	(51,413,358)	1,492	(51,411,866)
Other Financing Sources (Uses)			
State General Fund appropriations	53,342,100	-	53,342,100
Transfers from other state agencies	1,021,733	-	1,021,733
Other sources	634,176	-	634,176
Other transfers	(634,176)	-	(634,176)
Transfers to other state agencies	(1,610,876)	-	(1,610,876)
Reversions to State General Fund - FY13	(802,636)	-	(802,636)
<b>Total other financing sources (uses)</b>	<b>51,950,321</b>	<b>-</b>	<b>51,950,321</b>
<b>Net changes in fund balances</b>	<b>536,963</b>	<b>1,492</b>	<b>538,455</b>
Fund balances, June 30, 2012	33,925,748	422,428	34,348,176
<b>Fund balances, June 30, 2013</b>	<b>\$ 34,462,711</b>	<b>423,920</b>	<b>34,886,631</b>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2013**

<b>Net Changes in Fund Balances - Total Governmental Funds  (Statement of Revenues, Expenditures, and Changes in Fund Balances)</b>	<b>\$ 538,455</b>
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital asset additions recorded as expenditures in the governmental funds but capitalized in the Statement of Net Position	2,415,043
Loss on disposal of capital assets not recorded as expenditures in the governmental funds	(21,234)
Depreciation expense recorded in the Statement of Activities but not recorded as expenditures in the governmental funds	(2,729,624)
Decrease in contingent liabilities	527,119
Net change in compensated absences recorded in the Statement of Activities as a liability but not recorded in the governmental funds	<u>19,060</u>
<b>Change in net position of governmental activities  (Statement of Activities)</b>	<b><u><u>\$ 748,819</u></u></b>

*See Notes to Financial Statements.*

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL -  
OPERATING FUND 17200  
Year Ended June 30, 2013

	PROGRAM SUPPORT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 18,967,600	18,967,600	18,967,600	-
Other state funds	1,323,400	1,323,400	1,267,670	(55,730)
<b>Total revenues</b>	20,291,000	20,291,000	<u>\$ 20,235,270</u>	<u>(55,730)</u>
Fund Balance Budgeted	4,900	4,900		
Total revenues and fund balance budgeted	<u>\$ 20,295,900</u>	<u>20,295,900</u>		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 13,975,400	12,562,300	12,283,030	279,270
Contractual services	2,335,400	3,264,000	3,200,629	63,371
Other	3,985,100	4,469,600	4,415,897	53,703
	<u>\$ 20,295,900</u>	<u>20,295,900</u>	<u>19,899,556</u>	<u>396,344</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL -  
OPERATING FUND 17200 (CONTINUED)  
Year Ended June 30, 2013

<b>TAX ADMINISTRATION ACT *</b>				
	<b>Budgeted Amounts</b>		<b>Budgetary Basis Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Revenues				
State General Fund Appropriations	\$ 21,529,900	21,529,900	21,529,900	-
Other state funds	6,736,900	6,747,776	6,662,898	(84,878)
Federal funds	1,447,300	1,447,300	978,734	(468,566)
<b>Total revenues</b>	<b>29,714,100</b>	<b>29,724,976</b>	<b>\$ 29,171,532</b>	<b>(553,444)</b>
Fund Balance Budgeted	-	-		
<b>Total revenues and fund balance budgeted</b>	<b>\$ 29,714,100</b>	<b>29,724,976</b>		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 23,372,800	21,983,176	21,443,496	539,680
Contractual services	184,500	210,300	190,497	19,803
Other	6,156,800	7,531,500	7,372,108	159,392
	<b>\$ 29,714,100</b>	<b>29,724,976</b>	<b>29,006,101</b>	<b>718,875</b>

\* Less Fund 99400

See Notes to Financial Statements.

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL -  
OPERATING FUND 17200 (CONTINUED)  
Year Ended June 30, 2013

MOTOR VEHICLE PROGRAM \*

	MOTOR VEHICLE PROGRAM *			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 11,040,900	11,040,900	11,040,900	-
Other state funds	12,966,200	12,996,300	13,397,639	401,339
Federal funds	-	1,072,717	80,453	(992,264)
<b>Total revenues</b>	<b>24,007,100</b>	<b>25,109,917</b>	<b>\$ 24,518,992</b>	<b>(590,925)</b>
Fund balance budgeted	-	2,698,750		
<b>Total revenues and fund balance budgeted</b>	<b>\$ 24,007,100</b>	<b>27,808,667</b>		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 14,646,800	14,908,184	13,888,469	1,019,715
Contractual services	3,791,700	5,469,226	4,574,646	894,580
Other	5,568,600	6,807,957	6,378,504	429,453
Other financing uses	-	623,300	623,300	-
	<b>\$ 24,007,100</b>	<b>27,808,667</b>	<b>25,464,919</b>	<b>2,343,748</b>

\* Less Funds 99400 and 79800

See Notes to Financial Statements.

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL -  
OPERATING FUND 17200 (CONTINUED)  
Year Ended June 30, 2013

	<b>PROPERTY TAX PROGRAM</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Budgeted Amounts</b>		<b>Budgetary Basis Actual Amounts</b>	
	<b>Original</b>	<b>Final</b>		
Revenues				
State General Fund Appropriations	\$ -	-	-	-
Other state funds	3,223,500	3,223,500	4,971,231	1,747,731
<b>Total revenues</b>	<b>3,223,500</b>	<b>3,223,500</b>	<b>4,971,231</b>	<b>1,747,731</b>
Fund balance budgeted	-	-		
<b>Total revenues and fund         balance budgeted</b>	<b>\$ 3,223,500</b>	<b>3,223,500</b>		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 2,487,200	2,433,200	2,217,450	215,750
Contractual services	91,200	153,100	80,117	72,983
Other	645,100	637,200	526,687	110,513
	<b>\$ 3,223,500</b>	<b>3,223,500</b>	<b>2,824,254</b>	<b>399,246</b>

See Notes to Financial Statements.

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL -  
OPERATING FUND 17200 (CONTINUED)  
Year Ended June 30, 2013

	<b>COMPLIANCE ENFORCEMENT</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Budgeted Amounts</b>		<b>Budgetary Basis Actual Amounts</b>	
	<b>Original</b>	<b>Final</b>		
Revenues				
State General Fund Appropriations	1,803,700	1,803,700	1,803,700	-
Other state funds	\$ 251,200	251,200	52,248	(198,952)
<b>Total revenues</b>	<b>2,054,900</b>	<b>2,054,900</b>	<b>\$ 1,855,948</b>	<b>(198,952)</b>
Fund balance budgeted	-	-		
<b>Total revenues and fund     balance budgeted</b>	<b>\$ 2,054,900</b>	<b>2,054,900</b>		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 1,784,700	1,643,900	1,444,948	198,952
Contractual services	8,200	51,430	45,599	5,831
Other	262,000	359,570	325,091	34,479
	<b>\$ 2,054,900</b>	<b>2,054,900</b>	<b>1,815,638</b>	<b>239,262</b>

See Notes to Financial Statements.

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL -  
OPERATING FUND 17200 (CONTINUED)  
Year Ended June 30, 2013

Fund 17200 SPECIAL APPROPRIATIONS  
Gentax Upgrade Z20704

PROGRAM SUPPORT

	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other Financial Sources	\$ -	-	-	-
<b>Total revenues</b>	-	-	-	-
Fund balance budgeted	6,030,000	6,030,000		
	\$ 6,030,000	6,030,000		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	6,030,000	6,030,000	4,404,094	1,625,906
Other	-	-	-	-
Other Financing Uses	-	-	-	-
<b>Total expenditures</b>	\$ 6,030,000	6,030,000	4,404,094	1,625,906

Stabilize & Modernize ONGARD - Z20705

PROGRAM SUPPORT

	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other Financial Sources	\$ -	-	-	-
<b>Total revenues</b>	-	-	-	-
Fund balance budgeted	1,563,350	1,563,350		
	\$ 1,563,350	1,563,350		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	1,443,350	1,443,350	725,900	717,450
Other	120,000	120,000	108,686	11,314
Other Financing Uses	-	-	-	-
<b>Total expenditures</b>	\$ 1,563,350	1,563,350	834,586	728,764

See Notes to Financial Statements.

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL -  
OPERATING FUND 17200 (CONTINUED)  
Year Ended June 30, 2013

	<b>TOTAL OPERATING FUND</b>			
	<b>Budgeted Amounts</b>		<b>Budgetary Basis Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Revenues				
State General Fund Appropriations	\$ 53,342,100	53,342,100	53,342,100	-
Other state funds	24,501,200	24,542,176	26,351,686	1,809,510
Federal funds	1,447,300	2,520,017	1,059,187	(1,460,830)
Other sources	-	-	-	-
	<b>79,290,600</b>	<b>80,404,293</b>	<b>\$ 80,752,973</b>	<b>348,680</b>
Fund balance budgeted	7,598,250	10,297,000		
	<b>\$ 86,888,850</b>	<b>90,701,293</b>		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 56,266,900	53,530,760	51,277,393	2,253,367
Contractual services	13,884,350	16,621,406	13,221,482	3,399,924
Other	16,737,600	19,925,827	19,126,973	798,854
Other financing uses	-	623,300	623,300	-
	<b>\$ 86,888,850</b>	<b>90,701,293</b>	<b>84,249,148</b>	<b>6,452,145</b>

See Notes to Financial Statements.

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL -  
DRIVE MVD FUND 79800  
Year Ended June 30, 2013

	PROGRAM SUPPORT			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other state funds	\$ 95,100	95,100	5,574	(89,526)
Federal funds	-	-	-	-
<b>Total revenues</b>	95,100	95,100	\$ 5,574	(89,526)
Fund balance budgeted	-	-		
<b>Total revenues and fund         balance budgeted</b>	\$ 95,100	95,100		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 95,100	95,100	5,574	89,526
Contractual services	-	-	-	-
Other	-	-	-	-
Other Financing Uses	-	-	-	-
	\$ 95,100	95,100	5,574	89,526

	MOTOR VEHICLE PROGRAM			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other state funds	\$ -	-	862,306	862,306
Federal funds	-	2,178,459	2,056,575	(121,884)
<b>Total revenues</b>	-	2,178,459	\$ 2,918,881	740,422
Fund balance budgeted	-	1,207,000		
<b>Total revenues and fund         balance budgeted</b>	\$ -	3,385,459		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	-	3,381,459	2,914,881	466,578
Other	-	4,000	4,000	-
Other Financing Uses	-	-	-	-
	\$ -	3,385,459	2,918,881	466,578

See Notes to Financial Statements.

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL -  
DRIVE MVD FUND 79800 (CONTINUED)  
Year Ended June 30, 2013

FUND 798 SPECIAL APPROPRIATION  
MVD Fix Z90703

PROGRAM SUPPORT

	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other state funds	\$ -	-	3,310,535	3,310,535
<b>Total revenues</b>	-	-	<u>\$ 3,310,535</u>	<u>3,310,535</u>
Fund Balance Budgeted				
	\$ -	-		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other	-	-	-	-
Other Financing Uses	-	-	-	-
<b>Total expenditures</b>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL -  
NATIVE AMERICAN FUND 10690  
Year Ended June 30, 2013

FUND 10690 SPECIAL APPROPRIATIONS Native American PIT Settlement	TAX ADMINISTRATION ACT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
State General Fund Appropriations	\$ -	-	-	-
<b>Total revenues</b>	-	-	\$ -	-
Fund Balance Budgeted	-	217,524		
	\$ -	217,524		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other	-	195,772	183,656	12,116
Other Financing Uses	-	21,752	21,752	-
<b>Total expenditures</b>	\$ -	217,524	205,408	12,116

See Notes to Financial Statements.

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL -  
WEIGHT DISTANCE TAX PERMIT FUND 99400  
Year Ended June 30, 2013

MOTOR VEHICLE PROGRAM

	Budgeted Amounts			Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final			
	Revenues				
Other state funds	\$ 804,900	804,900	2,476,667	1,671,767	
<b>Total revenues</b>	804,900	804,900	\$ 2,476,667	1,671,767	
Fund balance budgeted	-	1,600,000			
<b>Total revenues and fund     balance budgeted</b>	\$ 804,900	2,404,900			
Expenditures - current and capital outlay					
Personal services/employee benefits	\$ 563,300	545,200	120,252	424,948	
Contractual services	40,000	58,100	-	58,100	
Other	201,600	201,600	7,519	194,081	
Other Financing Uses	-	1,600,000	1,600,000	-	
	\$ 804,900	2,404,900	1,727,771	677,129	

TAX ADMINISTRATION PROGRAM

	Budgeted Amounts			Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final			
	Revenues				
Other state funds	\$ 967,600	967,600	967,600	-	
<b>Total revenues</b>	967,600	967,600	\$ 967,600	-	
Fund balance budgeted	-	-			
<b>Total revenues and fund     balance budgeted</b>	\$ 967,600	967,600			
Expenditures - current and capital outlay					
Personal services/employee benefits	\$ 860,900	860,900	480,451	380,449	
Contractual services	-	-	-	-	
Other	106,700	106,700	33,427	73,273	
Other Financing Uses	-	-	-	-	
	\$ 967,600	967,600	513,878	453,722	

See Notes to Financial Statements.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND TYPE - AGENCY FUNDS  
JUNE 30, 2013**

ASSETS

Interest in State General Fund Investment Pool	\$	826,896,972
Cash on hand and in banks		2,661,906
Receivables:		
Counties, municipalities and fee agents		4,072,822
Due from state general fund		182,239,555
Due from other state agencies		34,287,890
Due from other non-agency funds		90,325
Due from taxpayers		808,609,419
Citations		25,993,539
Other - stale dated warrants		145,570
Tax assessments		1,037,634,103
Allowance for uncollectibles		(1,063,703,273)
 Total assets	 \$	 <u><u>1,858,928,828</u></u>

LIABILITIES

Unidentified tax collections	\$	250,600,393
Due to state general fund		852,593,630
Due to counties and municipalities		304,890,197
Due to other state agencies		217,898,813
Due to other non-agency funds		4,153,723
Refunds due to taxpayers		226,737,437
Due to external parties		37,870
Other liabilities - stale dated warrants		2,016,765
 Total liabilities	 \$	 <u><u>1,858,928,828</u></u>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 1. NATURE OF ORGANIZATION**

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

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

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

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

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

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

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 1. NATURE OF ORGANIZATION (CONTINUED)**

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

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

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

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

*Government-wide and Fund Financial Statements.* The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Department. Inter-fund balances have been eliminated in the government-wide financial statements. It is the Department's policy to eliminate the internal activity; therefore, amounts due to and due from the agency funds are reported in the statement of net position as due to and due from external parties.

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

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days after the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

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

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Department reports the following major governmental funds:

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

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

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

Additionally, the Department reports the following fund types:

**Capital Project Funds**

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

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

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

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fiduciary Funds.** Fiduciary funds account for assets held by the Department in a trustee capacity or as an agent for individuals, private organizations other government units and/or funds. The fiduciary fund type includes agency funds, which are custodial in nature and do not present results of operations. Agency funds are used to account for assets that the Department holds for others in an agency capacity. It is comprised of collection funds, which account for all activity of the tax programs administered by the Department, unclaimed property and fuel users/suppliers bonds. Unmatched money (money that cannot be matched to tax returns) over sixty days is remitted to the State General Fund per statute. These funds are subject to be refunded to the taxpayer or subject to being distributed to local governments once the proper tax return is identified and matched to the funds. The balance of the unmatched money sent to the State General Fund as of June 30, 2013 was \$148.9 million.

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

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

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

Cash on hand (petty cash and change funds) represents imprest amounts at motor vehicle field offices, audit and compliance field offices and the tax fraud investigations office.

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Capital Assets.* Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Department as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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

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

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

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

*Net Position.* Net position represents the difference between all other elements in a statement of net position and should be displayed in the applicable components of net investment in capital assets, restricted and unrestricted.

*Net Investment in Capital Assets.* Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. The Department has no debt.

*Restricted.* Restricted consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The Department does not have a restricted component of net position.

*Unrestricted.* Unrestricted consists of the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

**STATE OF NEW MEXICO  
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NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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

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

The Department has been designated as a "reverting agency" by the New Mexico state legislature and, therefore, pursuant to the Laws of 2004, Chapter 114, Section 2(E), "unencumbered balances in agency accounts remaining at the end of the fiscal year 2013 shall revert to the [state] general fund by September 30, 2013, unless otherwise indicated in the General Appropriations Act of 2004 or otherwise provided by law."

5. The Department had a number of invoices where the goods and services were received by June 30, 2013 (FY13), but were unpaid by that date. In these circumstances, accounts payable amounts were not established in FY13 at fiscal year end because these amounts were immaterial to the financial statements. These payments were processed as "Requests to Pay Prior Year Bills" in FY14 and were paid from FY14 budget.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
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June 30, 2013**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

**NOTE 3. STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED**

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool, are reported as assets by the various agencies investing in the Pool.

In June 2012, an independent expert diagnostic report revealed that the Pool balances had not been reconciled at a “business unit by fund” level since the inception of the Statewide Human resources, Accounting, and management Reporting system (SHARE) in July of 2006. This report, entitled “Current State Diagnostic of Cash Control,” also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items was unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance and Administration (DFA) at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

**STATE OF NEW MEXICO  
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**NOTE 3. STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED  
(CONTINUED)**

By state statute, DFA is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer (Section 8-6-3 NMSA 1978). Therefore, under the direction of the State Controller/ Financial Control Division Director, The Financial Control Division (FCD) of DFA undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project objective was to design and implement the changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting from the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Remediation Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements. DFA is responsible for the monthly reconciliation of these accounts.

A plan to address reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

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

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

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

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

At June 30, 2013, the Department had the following invested in the General Fund Investment Pool:

Interest in State General Fund Investment Pool \$862,364,519

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

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

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

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

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

Cash on hand (petty cash and change funds) in the amount of \$20,153 was held at the various Audit and Compliance Division (ACD) district offices, Motor Vehicle Division (MVD) field offices and Tax Fraud Investigations Division (TFID) offices for change funds and small purchases. Also, \$5,000 is held by TFID to be used for special investigations.

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, 2013.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
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**NOTE 4. CASH AND INTEREST IN THE STATE GENERAL FUND INVESTMENT POOL  
(CONTINUED)**

**Interest in the State General Fund Investment Pool - Department of Finance  
and Administration (DFA) - continued**

As of June 30, 2013, the Department's cash balances (now called "Interest in the State General Fund Investment Pool") have been reconciled to the Department's portion of the Interest in the State General Fund Investment Pool. The following reconciles SHARE closing cash balances with the Department's financial statements.

<u>Account Name</u>	<u>Fund Type</u>	<u>DFA SHARE Acct. No.</u>	<u>Bank Balance per State Treasurer</u>	<u>Audit Adjustments not in SHARE</u>	<u>Balance per Financial Statements</u>
<b>Governmental Funds:</b>					
TRIMS Expenditure Fund	Capital	08600 - 333	\$ -	-	-
TRD - Operating Fund	Govt'l.	17200 - 333	19,000,529	-	19,000,529
Property Valuation Fund	SR	34800 - 333	394,969	-	394,969
Native American Fund	SR	10690 - 333	12,677	-	12,677
Capital Improvement Project	Capital	88500 - 333	-	-	-
Drive MVD	Govt'l.	79800 - 333	11,110,389	-	11,110,389
Weight Distance Tax Admin Fee	Govt'l.	99400 - 333	4,948,983	-	4,948,983
<b>Total Governmental Funds</b>			<u>35,467,547</u>	-	<u>35,467,547</u>
<b>Fiduciary Funds:</b>					
Restitution Fund	Agency	23600 - 333	-	-	-
Oil & Gas Ad Valorem	Agency	23800 - 333	-	-	-
Corporate Income Tax (CIT)	Agency	27900 - 333	62,292,703	-	62,292,703
Personal Income Tax (PIT)	Agency	64200 - 333	74,315,425	-	74,315,425
HazMat Fingerprinting	Agency	68000 - 333	12,086	-	12,086
County & Municipal Gasoline Tax	Agency	68100 - 333	387,142	-	387,142
County & Municipal Recreation	Agency	68300 - 333	-	-	-
Small Cities Assistance	Agency	68400 - 333	4,324,464	-	4,324,464
Motor Transportation	Agency	70600 - 333	132,000	-	132,000
Local Liquor Excise Tax	Agency	70900 - 333	-	-	-
Unclaimed Property Suspense Fund	Agency	71000 - 333	5,238,655	-	5,238,655
Oil & Gas Ad Valorem	Agency	71300 - 333	-	-	-
Ad Valorem Equipment	Agency	71500 - 333	1,252	-	1,252
Income Tax Suspense Fund	Agency	81900 - 333	3,518,908	-	3,518,908
Transportation & Motor Vehicle	Agency	82500 - 333	23,662,136	-	23,662,136
Unidentified Remittances	Agency	82700 - 333	9,739	-	9,739
Enhanced 911 Surcharge	Agency	82800 - 333	71,308,829	-	71,308,829
Delinquency List Suspense	Agency	83000 - 333	3,775,051	-	3,775,051
Worker's Compensation	Agency	83100 - 333	586,361	-	586,361
CRS (TAA) Suspense Fund	Agency	83200 - 333	436,993,206	-	436,993,206
Oil and Gas Accounting	Agency	83300 - 333	140,339,015	-	140,339,015
<b>Total Fiduciary Funds</b>			<u>826,896,972</u>	-	<u>826,896,972</u>
<b>Total Interest in the State General Fund Investment Pool</b>			<u>\$ 862,364,519</u>	-	<u>862,364,519</u>

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 5. RECEIVABLES**

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

\$109,317,411 of the active tax assessments issued by the Department and listed below are under protest and/or subject to litigation.

At June 30, 2013, the Department's receivables, including the applicable allowances for uncollectable accounts are as follows:

	Governmental Funds		Fiduciary Funds
	General	Special Revenue	Agency
<b>Receivables:</b>			
Accounts receivable	\$ 19,415	-	-
Federal grants	857,804	-	-
County property valuation loans	-	268,917	-
Other receivables – stale dated warrants	-	-	145,570
Citations	-	-	25,993,539
Tax assessments considered uncollectible	-	-	1,037,634,103
<b>Gross receivables</b>	877,219	268,917	1,063,773,212
Allowance for uncollectibles	(17,057)	(240,000)	(1,063,703,273)
<b>Total receivables, net</b>	\$ 860,162	28,917	69,939
<b>Due From:</b>			
Other funds	\$ 5,092,902	-	90,325
Taxpayers	-	-	808,609,419
State General Fund	-	-	182,239,555
Local governments	-	-	4,072,822
Other agencies	3,706	34	34,287,890
<b>Total Due From:</b>	\$ 5,096,608	34	1,029,300,011

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
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**NOTE 5. RECEIVABLES (CONTINUED)**

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

Accounts Receivable

Receivables are recorded in connection with payroll employee overpayments, PERA buybacks and database access fee revenues. To date, an allowance of \$17,057 has been recorded for accounts where collection cannot be assured. In FY13, no receivables were determined to be uncollectible. Article IV Section 32 of the New Mexico Constitution provides:

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

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

Federal Grants

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

County Property Valuation Loans

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

Other Receivables – Stale Dated Warrants

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

Citations

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
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**NOTE 5. RECEIVABLES (CONTINUED)**

Tax Assessments

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

Due From Other Funds

The Department records due from other internal, fiduciary funds for revenues that are measurable and available as of June 30, 2013. The Department considers revenue to be available if they are collected within 60 days after the end of the current fiscal year.

Due From Taxpayers

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

Due From State General Fund

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

Due From Other Agencies

The Department works with other agencies to determine outstanding revenues due at June 30, 2013.

Write Offs

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
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June 30, 2013**

**NOTE 5. RECEIVABLES (CONTINUED)**

Receivables – Fiduciary Funds Tax Assessments

At June 30, 2013, tax assessments and penalty citations issued and uncollected by the Fiduciary Fund Type were:

Combined reporting system (CRS) taxes	\$ 584,814,594
Personal income tax	270,465,022
Corporate income tax	122,158,929
Citations	25,993,539
Cigarette tax	10,449,268
Combined fuel tax	8,321,092
Weight distance tax	3,653,406
Delinquent tax	1,520,182
Workers' compensation tax	746,314
Restitution	659,991
Fiduciary income tax	510,186
Gasoline tax	457,262
Tobacco products	385,150
Special fuel supplier	359,711
Enhanced 911 tax	313,043
Petroleum products loading fee	79,976
Liquor excise tax	22,536
Estate tax	17,203
Water conservation fees	13,492
Local liquor tax	10,418
Daily bed surcharge	4,465
Railroad car tax	3,948
Unclaimed property	2,841
Bingo and raffle tax	2,478
Telecommunications relay surcharge	2,472
Gaming	1,967
Alternative fuel distributors	89
Oil and gas tax programs:	
Oil and gas taxes (OGT & HM)	<u>32,733,699</u>
 Total receivables, fiduciary funds tax assessments	 <u><u>\$1,063,703,273</u></u>

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 6. CAPITAL ASSETS**

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

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
<b>Governmental activities:</b>				
Capital assets being depreciated:				
Furniture and fixtures	\$ 1,223,603	11,829	(109,905)	1,125,527
Software	19,302,752	2,047,883	-	21,350,635
Data processing equipment	5,929,504	131,735	(469,176)	5,592,063
Machinery and equipment	2,835,314	223,596	(26,409)	3,032,501
Tenant leasehold improvements	712,762	-	-	712,762
Vehicles	<u>82,454</u>	<u>-</u>	<u>-</u>	<u>82,454</u>
Total capital assets being depreciated	<u>30,086,389</u>	<u>2,415,043</u>	<u>(605,490)</u>	<u>31,895,942</u>
Less accumulated depreciation for:				
Furniture and fixtures	(1,142,822)	(56,789)	-	(1,090,714)
Software	(12,561,089)	(2,067,490)	-	(14,628,579)
Data processing equipment	(4,705,200)	(443,095)	491,136	(4,699,346)
Machinery and equipment	(2,588,701)	(108,171)	72,775	(2,670,462)
Tenant leasehold improvements	(265,749)	(47,520)	-	(313,269)
Vehicles	<u>(75,895)</u>	<u>(6,559)</u>	<u>-</u>	<u>(82,454)</u>
Total accumulated depreciation	<u>(21,339,456)</u>	<u>(2,729,624)</u>	<u>563,911</u>	<u>(23,484,824)</u>
Capital assets, net	\$ <u>8,746,933</u>	<u>(314,581)</u>	<u>(21,234)</u>	<u>8,411,118</u>

Depreciation expense of \$2,729,624 was charged to the following programs:

Program Support	\$ 2,454,872
Tax Administration Act	183,787
Compliance Enforcement	4,615
Motor Vehicle Program	86,350

Capital asset activity included \$2,415,043 of capital outlay acquisitions, primarily for purchases of data processing equipment and software.

**STATE OF NEW MEXICO  
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NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 6. CAPITAL ASSETS (CONTINUED)**

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

**NOTE 7. INTER/INTRA FUND RECEIVABLES AND PAYABLES**

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

The inter-fund receivables and payables (due to and from other funds) reported in the financial statements represent outstanding cash transfers as of June 30, 2013 and are comprised of the following balances:

<u>Fund</u>	<u>Fund Description</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
<b>Operating Funds:</b>			
17200	General Fund – Operations	\$ 3,574,478	793,307
79800	Drive MVD	1,402,803	-
10690	Native American		
99400	Tax Identification Fund	<u>115,621</u>	<u>-</u>
<b>Total Operating Funds</b>		<u>5,092,902</u>	<u>793,307</u>
<b>Fiduciary Funds:</b>			
27900	Corporate Income Tax	66,989	-
64200	PIT (TAA) Suspense	-	66,989
68000	HazMat Finger Printing Fee	4,750	11,039
68100	County & Municipal Gasoline	5,895,153	-
68200	County & Municipal Recreation	-	-
68300	County & Municipal Cigarette	-	-
68400	Small Cities Assistance	2,323,887	-
70900	Local Liquor Excise Tax	188,395	-
71300	Oil & Gas Ad Valorem Prod Tax	23,084,398	-
71500	Ad Valorem Equipment Tax	1,009	-
81900	Income Tax Suspense (TRIMS)	48,380	1,311
82500	Transportation & MVD Suspense	375,533	2,214,844
82800	Tax Admin Act(TAA) Suspense	-	6,468,997
83000	Delinquency List Suspense	-	882,767
83100	Workers' Compensation Fund	-	128,965
83200	CRS (TAA) Suspense	-	3,427,770
83300	Oil & Gas Accounting Suspense	<u>-</u>	<u>23,085,407</u>
<b>Total Fiduciary Funds</b>		<u>31,988,494</u>	<u>36,288,089</u>
<b>Total Inter-fund Balances</b>		\$ <u>37,081,396</u>	<u>37,081,396</u>

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 8. INTRA-FUND TRANSFERS**

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

Additions:	
Income tax suspense fund (TRIMS)	\$ 344,286,826
Oil and gas suspense funds (Other)	156,038,964
TAA suspense funds (Other)	42,916,522
HazMat fingerprinting fund	<u>204,040</u>
Total	<u>\$ 543,446,352</u>
Deductions:	
CRS suspense fund	\$ 353,573,074
Oil and gas accounting suspense fund	156,038,964
TAA suspense fund	33,630,274
Transportation and motor vehicle suspense fund	<u>204,040</u>
Total	<u>\$ 543,446,352</u>

**NOTE 9. LEASES**

*Operating Leases.* The Department leases facilities and equipment under numerous operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Department's Statement of Net Position. Leases are subject to future appropriation and are cancelable by the Department at the end of each fiscal year. For the year ended June 30, 2013, facilities rental expenditures were \$3,518,654.

**NOTE 10. LIABILITIES**

*Current Liabilities.* The Department's General Fund total current liabilities during the fiscal year were \$7,378,674. The General Fund accounts payable of \$4,690,587 consists of goods or services received by the Department by June 30, 2013 but paid after June 30, 2013. The General Fund accrued payroll of \$1,059,438 consists of payroll expenditures incurred from June 23, 2013 through June 30, 2013 but paid after June 30, 2013.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 10. LIABILITIES (CONTINUED)**

*Compensated Absences.* Compensated absences for the year ended June 30, 2013 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences payable	\$ 2,062,687	3,970,818	(3,989,878)	2,043,627	2,043,627

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

**NOTE 11. DUE TO STATE GENERAL FUND (REVERSIONS)**

Unexpended and unencumbered cash balances of certain funds revert to the State General Fund at year-end. For certain funds, cash recoveries during the fiscal year from stale-dated warrants are also due to the State General Fund. Current year reversions due to the State General Fund as of June 30, 2013 were as follows:

Reversions:		
<u>FY 13 Reversion</u>		
Expenditure reversions		799,920
Revenue reversions		<u>2,716</u>
Total FY13 Reversions		802,636
Reversions Due the State Land Office		(2,662)
Stale Dated Warrants		<u>-</u>
Total due to State General Fund at June 30, 2013		<u>\$ 799,974</u>

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 12. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT  
ASSOCIATION**

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

*Funding Policy.* Plan members are required to contribute 10.67% of their gross salary. The Department's is required to contribute 13.34% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department's contributions to PERA for the years ending June 30, 2013, 2012 and 2011 were \$5,348,766, \$4,797,082, and \$5,923,066, respectively, equal to the amount of the required contribution for each year.

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

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

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

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

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

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

*Funding Policy.* The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](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, 2013, the statute required each participating employer to contribute 2.000% of each participating employee's annual salary; each participating employee was required to contribute 1.000% of their salary.

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, 2013, 2012 and 2011 were \$707,980, \$656,246, and \$649,808, respectively, which equal the required contributions for each year.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 14. RISK MANAGEMENT**

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

**NOTE 15. CONTINGENCIES**

*Federal Grant Programs.* The Department participates in numerous federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Department has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectibility of any related receivable as of June 30, 2013, may be impaired.

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

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

*Pending or Threatened Litigation.* There are various lawsuits by taxpayers claiming refunds from various tax programs for taxes under protest totaling \$109,317,411 for the fiscal year. In addition, there are various lawsuits by taxpayers claiming refunds from various tax programs where no specified dollar amount under protest has been identified. Management intends to contest all cases vigorously. Any liability would be paid for out of the Department's agency funds.

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 16. JOINT POWERS AGREEMENTS / MEMORANDUMS OF  
UNDERSTANDING**

**ONGARD Service Center**

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

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

**Ohkay Owingeh**

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

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

**UNM Forecasting Services**

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

- Responsible Party: UNM
- Time period: July 1, 2010 to June 30, 2014
- Amount of Project: \$93,966
- Portion Applicable to NMTRD: \$41,348
- Audit Responsibility: NMTRD
- Revenue Reported: UNM

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

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

Bernalillo County Metropolitan Court

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

- Responsible Party: NMTRD
- Time period: July 6, 2011 to June 30, 2014
- Amount of Project: Based on hourly rate and amount of usage.
- Portion Applicable to NMTRD: 100% of cost incurred
- Audit Responsibility: NMTRD
- Revenue Reported: Bernalillo County Metropolitan Court, Central Parking Division

Department of Homeland Security

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

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

NM Regulation and Licensing Department

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

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

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

NM Department of Health

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

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

NM Secretary of State

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

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

NM Department of Public Safety

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

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

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

Albuquerque Small Business Development Center at Central NM Community College

The New Mexico Taxation and Revenue Department (NMTRD) participate in an MOU with Albuquerque Small Business Development Center at Central NM Community College (ASBDCCNM) to collaborate in an effort to assist mutual clients. ASBDCCNM will provide classroom space to NMTRD for the New Business and New Employer tax workshops. In exchange for this resource NMTRD will assist with a small contribution to the operation of ASBDCCNM in the amount of \$500 per quarter.

- Responsible Party: ASBDCCNM
- Time period: January 1, 2013 thru June 30, 2013
- Amount of Project: \$1,000
- Portion Applicable to NMTRD: \$1,000
- Audit Responsibility: NMTRD
- Revenue Reported: ASBDCCNM

Central New Mexico Community College CD-2

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

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

Department of Workforce Solutions

The Department participates in an agreement with Department of Workforce Solutions (NMDWS) for the purpose of user access to the NMDWS uFacts system between the Unemployment Insurance Bureau (UI) of NMDWS and NMTRD.

- Responsible Party: NM Taxation and Revenue Department and NM Department of Workforce Solutions
- Time Period: November 6, 2012 through November 6, 2015
- Amount of Project: \$0
- Portion Applicable to NMTRD: \$0
- Audit Responsibility: NMTRD
- Revenue Reported: N/A

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

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

New Mexico State Gaming Control Board

The agreement between NM Taxation and Revenue Department (NMTRD) and NM Gaming Control Board (NMGCB) concerns the dissemination of criminal history record information on those employees subject to the requirement of the Real ID Act that derive from fingerprint cards that are submitted to the Federal Bureau of Investigation (FBI).

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

The Office of the Governor, State Personnel Office, Corrections Department, Department of Health, Children, Youth & Families Department, Human Services Department, Department of Transportation, Taxation & Revenue Department, Department of Workforce Solutions, Public Education Department, Regulation & Licensing Department, Aging & Long Term Services Department, Department of Cultural Affairs, State Fair Commission, Public Defender Department, Division of Vocational Rehabilitation – PED, Commission for the Blind, Environment Department, General Services Department, Miners’ Colfax Medical Center, Workers’ Compensation Administration, Department of Information Technology, Department of Public Safety – Motor Transportation Division Whereas, the State Personnel Office will administer the contract with Management Associates, Inc. to complete the analysis of the existing collective bargaining agreements, develop a strategy for negotiating new agreements, provide training to the management negotiation team for contract negotiation for contract negotiation, conduct labor negotiations between the three labor organizations, and provide assistance with other labor issues as requested.

- Responsible Party: NM Office of the Governor
- Time Period: July 1, 2011 indefinitely
- Amount of Project: \$250,000
- Portion Applicable to NMTRD: \$15,328
- Audit Responsibility: NMTRD
- Revenue Reported: NMSPO

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 17. GOVERNMENTAL FUND BALANCES - RESTRICTED AND COMMITTED**

The Department's fund balances represent: (1) Restricted Purposes which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; (2) Committed Purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. A summary of the nature and purpose of these reserves by fund type at June 30, 2013, follows:

Fund/Program	Laws	Committed Purposes	Restricted Purposes
<b>General Fund:</b>			
Native American Settlement	Laws of 2011, Chapter 179, Section 5, \$250,000 does not revert	\$ 12,117	-
GenTax Upgrade	Laws of 2012, Chapter 19, Section 7, Item 4, \$6,230,000 through FY14	1,625,905	-
ONGARD Upgrade	Laws of 2012, Chapter 19, Section 7, Item 5, \$6,000,000 through FY14	728,763	-
Replace MVD System	Laws of 2012, Chapter 19, Section 7, Item 3, \$8,300,000 through FY14	8,300,000	-
Replace MVD System	Laws of 2013, Chapter 227, Section 7, Item 4, \$8,042,500 through FY15	4,610,974	-
<b>Total General Fund:</b>		<u>15,277,759</u>	-
<b>Capital Improvements Projects Fund 88500:</b>			
TRD Tax Policy Project	Laws of 2007, Chapter 42, Section 73	-	-
<b>Total Fund Balance - Committed for Special Appropriations</b>		<u>\$ 15,277,759</u>	-
<b>Fund Balance:</b>			
<b>General Fund:</b>			
Financial Responsibility Act	NMSA 1978, Section 66-5-201 and 66-6-23A(5)(e)	\$ -	257,273
EDL - Enhanced Driver's License	NMSA 1978, Section 66-5-44, C	-	2,325,696
Delinquent Property Tax	NMSA 1978, Section 7-38-62	-	7,156,385
PIT Intercept Administration Fees	NMSA 1978, Section 7-2C-12	-	276,805
MVD Non-Reverting Revenues	Laws of 2009, Chapter 156, Section 1 through 7	1,356,904	1,327,316
Out of State DWI Verification	NMSA 1978, Section 66-5-44, B	-	620,389
Weight Distance Tax Fund 99400	NMSA 1978, 7-15A-14	5,052,147	-
<b>Total General Fund Balance - Restricted / Committed for Subsequent Years' Expenditures</b>		<u>6,409,051</u>	<u>11,963,864</u>
Property Valuation Fund 34800 (Loans NMSA 1978, 7-35-3(B))		423,920	-
<b>Total Fund Balance</b>		<u>\$ 22,110,730</u>	<u>11,963,864</u>

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 18. REVENUES**

General fund revenue reported for the year ended June 30, 2013 consisted of the following:

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Other State Funds:</b>			
Delinquent Property Tax	\$ 4,970,057	-	4,970,057
Workers Comp Assessment	583,255	-	583,255
Alcoholic Beverage Tax	60,945	-	60,945
Unclaimed Property	371,900	-	371,900
Sale of MVD Data	6,431,463	-	6,431,463
Motor Vehicle - Special Plates	119,942	-	119,942
Temporary Permits	16,710	-	16,710
Private Retail Agents	973,314	-	973,314
Enhanced Drivers License (EDL)	1,708,724	-	1,708,724
Parental Responsibilities	103,940	-	103,940
Provisional License	184,992	-	184,992
Hazmat Fingerprinting	117,001	-	117,001
Financial Responsibilities	3,458,491	-	3,458,491
Motorcycle & Off Highway Registration Fee	285,916	-	285,916
Out of State DWI Verification Interlock	439,905	-	439,905
Weight Distance Tax Administrative Fees	3,444,267	-	3,444,267
Motor Vehicle Admin Fees	3,162,415	-	3,162,415
STB Bonds for Capital Assets	-	-	-
Interest Income	-	1,492	1,492
Other Admin Fees (PIT & GRT)	6,409,873	-	6,409,873
Misc. Revenue - Program	3,378	-	3,378
<b>Total Other State Funds</b>	<b>32,846,488</b>	<b>1,492</b>	<b>32,847,980</b>
<b>Other Financing Sources:</b>			
Revenue to operate Native American Fund	10,876	-	10,876
Revenue to MVD System Replacement	623,300	-	623,300
<b>Total Other Financing Sources</b>	<b>634,176</b>	<b>-</b>	<b>634,176</b>
<b>State General Fund:</b>			
State General Fund Appropriations	53,342,100	-	53,342,100
Special Appropriations	-	-	-
<b>Total State General Fund</b>	<b>53,342,100</b>	<b>-</b>	<b>53,342,100</b>
State Land Office Transfers	1,021,733	-	1,021,733
<b>Total State Funds</b>	<b>87,844,497</b>	<b>1,492</b>	<b>87,845,989</b>
<b>Federal Funds</b>	<b>3,115,762</b>	<b>-</b>	<b>3,115,762</b>
<b>Total Revenues - GAAP</b>	<b>\$ 90,960,259</b>	<b>1,492</b>	<b>90,961,751</b>

**SUPPLEMENTARY INFORMATION**

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
COMBINING BALANCE SHEET  
GENERAL FUNDS  
June 30, 2013

	<u>Operating</u>	<u>Weight Distance</u>	<u>Drive MVD</u>	<u>Native American</u>	<u>Total</u>
<b>ASSETS</b>					
Interest in the State Treasurer General Fund					
Investment Pool	\$ 19,000,529	4,948,983	11,110,389	12,677	35,072,578
Cash on hand	25,153	-			25,153
Receivables:					
Due from federal government	160,567	-	697,237	-	857,804
Loans to counties, net	-	-	-	-	-
Other receivables, net	2,358	-	-	-	2,358
Due from:					
Other funds	3,574,478	115,621	1,402,803	-	5,092,902
Other state agencies	3,706	-	-	-	3,706
Inventory of supplies	769,328	-	-	-	769,328
Prepaid expenses	17,556	-	-	-	17,556
<b>Total assets</b>	<b>\$ 23,553,675</b>	<b>5,064,604</b>	<b>13,210,429</b>	<b>12,677</b>	<b>41,841,385</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accounts payable	\$ 4,392,226	777	297,584	-	4,690,587
Accrued payroll	1,045,887	11,680	1,871	-	1,059,438
Due to external parties	-	-	-	560	560
Due to other funds	793,307	-	-	-	793,307
Due to other state agencies	2,761	-	-	-	2,761
Due to State General Fund	799,974	-	-	-	799,974
Other Liabilities	32,047	-	-	-	32,047
<b>Total liabilities</b>	<b>7,066,202</b>	<b>12,457</b>	<b>299,455</b>	<b>560</b>	<b>7,378,674</b>
Fund Balances					
Nonspendable					
Cash on hand	25,153	-	-	-	25,153
Inventory of supplies	769,328	-	-	-	769,328
Prepaid expenses	17,556	-	-	-	17,556
Restricted	11,963,864	-	-	-	11,963,864
Committed	3,711,572	5,052,147	12,910,974	12,117	21,686,810
<b>Total fund balances</b>	<b>16,487,473</b>	<b>5,052,147</b>	<b>12,910,974</b>	<b>12,117</b>	<b>34,462,711</b>
<b>Total liabilities and fund balances</b>	<b>\$ 23,553,675</b>	<b>5,064,604</b>	<b>13,210,429</b>	<b>12,677</b>	<b>41,841,385</b>

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - GENERAL FUNDS  
Year Ended June 30, 2013

	<u>Operating</u>	<u>Weight Distance</u>	<u>Drive MVD</u>	<u>Native American</u>	<u>Total</u>
<b>Revenues</b>					
Other state funds	\$ 25,847,105	3,444,266	3,555,117	-	32,846,488
Federal funds	1,059,187	-	2,056,575	-	3,115,762
<b>Total revenues</b>	<b>26,906,292</b>	<b>3,444,266</b>	<b>5,611,692</b>	<b>-</b>	<b>35,962,250</b>
<b>Expenditures</b>					
Current expenditures:					
Personal services and employee benefits	51,277,393	600,703	5,574	-	51,883,670
Contractual services	13,221,482	-	2,914,881	-	16,136,363
Other costs	16,711,930	40,946	4,000	183,656	16,940,532
Capital outlay	2,415,043	-	-	-	2,415,043
<b>Total expenditures</b>	<b>83,625,848</b>	<b>641,649</b>	<b>2,924,455</b>	<b>183,656</b>	<b>87,375,608</b>
<b>Excess of revenues over expenditures</b>	<b>(56,719,556)</b>	<b>2,802,617</b>	<b>2,687,237</b>	<b>(183,656)</b>	<b>(51,413,358)</b>
<b>Other Financing Sources (Uses)</b>					
State General Fund appropriations	53,342,100	-	-	-	53,342,100
Other Gifts and Grants	-	-	-	-	-
Fund Balance Sources	10,876	-	623,300	-	634,176
Fund Balance Transfers	(623,300)	-	-	(10,876)	(634,176)
Transfers from other state agencies	1,021,733	-	-	-	1,021,733
Transfers to other state agencies	-	(1,600,000)	-	(10,876)	(1,610,876)
Reversions to State General Fund - FY13	(802,636)	-	-	-	(802,636)
<b>Net other financing sources (uses)</b>	<b>52,948,773</b>	<b>(1,600,000)</b>	<b>623,300</b>	<b>(21,752)</b>	<b>51,950,321</b>
<b>Net change in fund balance</b>	<b>(3,770,783)</b>	<b>1,202,617</b>	<b>3,310,537</b>	<b>(205,408)</b>	<b>536,963</b>
Fund balance, June 30, 2012	20,258,256	3,849,530	9,600,437	217,525	33,925,748
<b>Fund balance, June 30, 2013</b>	<b>\$ 16,487,473</b>	<b>5,052,147</b>	<b>12,910,974</b>	<b>12,117</b>	<b>34,462,711</b>

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NON-MAJOR FUNDS  
Year Ended June 30, 2013**

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

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

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

Capital Improvement Projects Fund (88500) – This fund was created to provide funding for various capital improvement projects. There have been no further appropriations to the Capital Improvement Projects Fund.

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

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
June 30, 2013

	<u>Property</u>	<u>TRIMS</u>	<u>Capital</u>	<u>Total</u>
<b>ASSETS</b>				
Interest in the State Treasurer General Fund				
Investment Pool	\$ 394,969	-	-	394,969
Receivables:				
Due from other state agencies	34	-	-	34
Loans to counties, net	28,917	-	-	28,917
	<hr/>			
<b>Total assets</b>	<b>\$ 423,920</b>	<b>-</b>	<b>-</b>	<b>423,920</b>
	<hr/> <hr/>			
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ -	-	-	-
Due to other state agencies	-	-	-	-
	<hr/>			
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund Balances				
Committed for loans to counties	423,920	-	-	423,920
	<hr/>			
<b>Total fund balances</b>	<b>423,920</b>	<b>-</b>	<b>-</b>	<b>423,920</b>
	<hr/>			
<b>Total liabilities and fund balances</b>	<b>\$ 423,920</b>	<b>-</b>	<b>-</b>	<b>423,920</b>
	<hr/> <hr/>			

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2013

	<u>Property</u>	<u>TRIMS</u>	<u>Capital</u>	<u>Total</u>
Revenues				
Miscellaneous revenue	\$ 1,492	-	-	1,492
<b>Total revenues</b>	1,492	-	-	1,492
Expenditures				
Current expenditures:				
Operating costs	-	-	-	-
Capital outlay	-	-	-	-
<b>Total expenditures</b>	-	-	-	-
<b>Excess of revenues over expenditures</b>	1,492	-	-	1,492
Other Financing Sources (Uses)				
Reversions	-	-	-	-
Transfers to other state agencies	-	-	-	-
<b>Net other financing sources (uses)</b>	-	-	-	-
<b>Net change in fund balance</b>	1,492	-	-	1,492
Fund balance, June 30, 2012	422,428	-	-	422,428
<b>Fund balance, June 30, 2013</b>	<u>\$ 423,920</u>	<u>-</u>	<u>-</u>	<u>423,920</u>

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
FIDUCIARY FUND TYPES  
Year Ended June 30, 2013**

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

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

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
FIDUCIARY FUND TYPES (CONTINUED)  
Year Ended June 30, 2013**

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
FIDUCIARY FUND TYPES (CONTINUED)  
Year Ended June 30, 2013**

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

Collections funds:

CRS Suspense Funds (Funds 70700 and 83200) – used for the taxes reported through the combined reporting system (CRS), which reports gross receipts taxes, compensating taxes, withholding taxes and leased vehicle surcharges.

Personal Income Tax Funds (Funds 23600, 64200, 81900 and 82900) – used for reporting personal income taxes.

Corporate Income Tax (Fund 27900) – used for reporting corporate income taxes, franchise taxes, and past-through entity annual withholding taxes.

TAA Suspense and Other Funds (Funds 68100, 68200, 68300, 68400, 70900, 82800, 83000 and 83100) – used for reporting gasoline taxes, special fuel taxes, alternative fuel taxes, petroleum products loading fees, water conservation fees, liquor taxes, cigarette taxes, tobacco products taxes, gaming taxes, fiduciary taxes, estate taxes, railroad car tax, worker's compensation fees, 911 emergency surcharges, telecommunications relay service surcharges and delinquent property taxes.

Motor Vehicle Funds (Funds 82500 and 68000) – used for reporting motor vehicle excise taxes, vehicle registrations, boat registrations and taxes, special fuel taxes paid through IFTA, weight distance taxes, commercial vehicle permits, and motor vehicle / driver penalties.

Oil and Gas Funds (Funds 23700, 23800, 23900, 71300, 71400, 71500 and 83300) – used for reporting taxes relating primarily to oil and gas, natural gas and other natural resources.

Non-Collection funds:

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

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND TYPE - AGENCY FUNDS  
JUNE 30, 2013

ASSETS	Collection Funds						Non-Collection	Eliminations	June 30, 2013
	CRS Suspense	Personal Income Tax Funds	Corporate Income Tax	TAA Suspense / Other	Motor Vehicle	Oil & Gas	Other Funds		Totals
Interest in State General Fund Investment Pool	\$ 436,993,206	77,834,334	62,292,703	80,381,846	23,674,222	140,340,267	5,380,394	-	826,896,972
Cash on hand and in banks	-	-	-	-	2,661,906	-	-	-	2,661,906
Receivables:									
Counties, municipalities and fee agents	4,072,822	-	-	-	-	-	-	-	4,072,822
Due from state general fund	78,247,749	35,297,723	30,839,050	3,297,450	1,223,904	33,333,679	-	-	182,239,555
Due from other state agencies	-	-	-	-	239,865	34,048,025	-	-	34,287,890
Due from other non-agency funds	-	48,380	-	41,945	-	-	-	-	90,325
Due from taxpayers	436,750,079	56,241,372	63,863,874	52,554,337	20,214,516	178,985,241	-	-	808,609,419
Due from other funds	1,078	-	66,989	8,511,561	380,283	35,223,692	-	#####	-
Citations	-	-	-	-	25,993,539	-	-	-	25,993,539
Other - stale dated warrants	48,948	-	-	65,854	10,873	-	19,895	-	145,570
Tax assessments	584,814,595	271,049,382	122,158,929	23,221,251	3,653,406	32,733,699	2,841	-	1,037,634,103
Allowance for uncollectibles	(584,814,595)	(271,125,013)	(122,158,929)	(23,221,251)	(29,646,945)	(32,733,699)	(2,841)	-	(1,063,703,273)
Total assets	\$ 956,113,882	169,346,178	157,062,616	144,852,993	48,405,569	421,930,904	5,400,289	#####	1,858,928,828
<b>LIABILITIES</b>									
Unidentified tax collections	\$ 81,750,474	30,626,992	63,541,685	32,142,968	(21,971)	37,765,214	4,795,031	-	250,600,393
Due to state general fund	523,120,328	102,902,086	62,681,631	33,341,139	11,324,685	119,223,761	-	-	852,593,630
Due to counties and municipalities	251,296,508	-	-	18,368,257	2,711,645	32,513,787	-	-	304,890,197
Due to other state agencies	17,789,278	400,000	-	48,382,793	30,837,262	120,489,480	-	-	217,898,813
Due to other non-agency funds	1,145,829	49,691	-	682,155	2,276,048	-	-	-	4,153,723
Refunds due to taxpayers	78,247,748	35,292,998	30,839,049	5,044,432	50,888	76,713,716	548,606	-	226,737,437
Due to external parties	-	214	-	38,044	(1,642)	1,254	-	-	37,870
Due from other funds	2,323,887	66,989	-	6,563,207	4,750	35,223,692	1,078	#####	-
Other liabilities - stale dated warrants	439,830	7,208	251	289,998	1,223,904	-	55,574	-	2,016,765
Reserve for litigated assessments	-	-	-	-	-	-	-	-	-
Total liabilities	\$ 956,113,882	169,346,178	157,062,616	144,852,993	48,405,569	421,930,904	5,400,289	#####	1,858,928,828

See Notes to Financial Statements.

**OTHER SUPPLEMENTARY INFORMATION**

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF SPECIAL APPROPRIATIONS  
Year Ended June 30, 2013

Special Appropriation	Amount Appropriated	Amount Received to Date	Expenditures to Date	Unencumbered Balance	Amount Reverted
<b>General Fund:</b>					
Special appropriation to Taxation & Revenue Department for Native American Settlement, Laws of 2009, Chapter 124, Section 5, Item 6, Non-reverting	\$ 1,000,000	1,000,000	1,000,000	-	-
Special appropriation to Taxation & Revenue Department for Native American Settlement, Laws of 2011, Chapter 179, Section 5, Item 9, Non-reverting	250,000	250,000	237,883	12,117	-
Special appropriation to Taxation & Revenue Department to upgrade tax administration software, Laws of 2012, Chapter 19, Section 7, Item 4, through FY14	6,230,000	6,230,000	4,604,094	1,625,905	-
Special appropriation to Taxation & Revenue Department to modernize ONGARD system, Laws of 2012, Chapter 19, Section 7, Item 5, through FY14	6,000,000	1,584,100	855,336	728,763	-
Special appropriation to Taxation & Revenue Department to replace MVD System, Laws of 2009, Chapter 124, Section 5, Item 6. Extended Laws of 2011, Chapter 179, Section 7, Item 2. Extended Laws of 2013, Chapter 227, Section 7, Item 4, through FY15.	8,042,500	4,610,974	-	4,610,974	-
Special appropriation to Taxation & Revenue Department to replace MVD System, Laws of 2010, Special Session, Chapter 6, Section 7, Item 3. Extended Laws of 2012, Chapter 19, Section 7, Item 3, through FY14.	8,300,000	8,300,000	-	8,300,000	-
<b>General Fund Total</b>	29,822,500	21,975,074	6,697,313	15,277,759	-
<b>Capital Improvement Projects fund:</b>					
Special appropriation through FY13	-	-	-	-	-
<b>Total Special Appropriations</b>	<b>\$ 29,822,500</b>	<b>21,975,074</b>	<b>6,697,313</b>	<b>15,277,759</b>	<b>-</b>

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FIDUCIARY FUND INTER-AGENCY TRANSFERS

Fiscal Year Ended June 30, 2013

Account Transferred to:	Cash Account Transfer to:	Account Transferred from:	Reason for Transfer	Cash Account Transfer from:	Net Amount
<b>Children Youth and Families Department:</b>					
CYFD-Children's Trust Fund	78000-690	Transportation & MVD Suspense	1	82500-333	\$ 25,775
<b>Department of Cultural Affairs:</b>					
OCA Capital Projects/Laws of 1992	69100-505	CRS TAA Suspense Fund	1	83200-333	366,011
<b>Department of Education:</b>					
Substance Abuse Education	05700-924	Income Tax Suspense Fund	1	81900-333	8,092
Driving Safety Fees	57300-924	Transportation & MVD Suspense	1	82500-333	1,452,945
<b>Department of Environment:</b>					
Tire Recycling Fund	02600-667	Transportation & MVD Suspense	1	82500-333	924,829
Water Conservation Fund (WCF)	56700-667	TAA Suspense Fund	1	82800-333	2,639,237
Corrective Action Fund (PPL)	99000-667	TAA Suspense Fund	1	82800-333	18,963,474
<b>Department of Finance and Administration:</b>					
DFA Appropriations - Restitution	85300-341	TRD Restitution Fund	1	23600-333	4,581
DFA Appropriations - CIT	85300-341	CIT TAA Suspense Fund	1	27900-333	266,466,534
DFA Appropriations - PIT	85300-341	PIT TAA Suspense Fund	1	64200-333	513,850,070
DFA Appropriations - Unclaimed Property	85300-341	Unclaimed Property Susp Fund	1	71000-333	16,832,891
SBOF - State Debt	80000-341	Oil & Gas Ad Valorem Prod Fund	1	71300-333	7,840,565
SBOF - State Debt	80000-341	Copper Production Tax Fund	1	71400-333	162,439
SBOF - State Debt	80000-341	Ad Valorem Equipment Tax Fund	1	71500-333	1,584,052
Juvenile Adjudication Fund	10780-341	Transportation & MVD Suspense	1	82500-333	120,371
Santa Fe 400th Plate	10880-341	Transportation & MVD Suspense	1	82500-333	2,650
Judicial Education Fund	58900-341	Transportation & MVD Suspense	1	82500-333	400,214
DFA Appropriations - MVC	85300-341	Transportation & MVD Suspense	1	82500-333	131,284,833
Enhanced 911 Fund	01700-341	TAA Suspense Fund	1	82800-333	12,025,621
Cancer Research & Treatment Center	23300-341	TAA Suspense Fund	1	82800-333	734,542
Local DWI Grant Fund	56000-341	TAA Suspense Fund	1	82800-333	18,857,120
DFA Appropriations - TAA	85300-341	TAA Suspense Fund	1	82800-333	165,769,690
DFA Appropriations - WKC	85300-341	Workmens' Compensation Fund	1	83100-333	139,232
County-supported Medicaid Fund	02100-341	CRS TAA Suspense Fund	1	83200-333	19,273,667
Small Counties Assistance Fund	73700-341	CRS TAA Suspense Fund	1	83200-333	7,191,102
DFA Appropriations - CRS TAA	85300-341	CRS TAA Suspense Fund	1	83200-333	2,667,452,842
DFA Appropriations - Oil & Gas	85300-341	Oil & Gas Accounting Suspense	1	83300-333	424,724,239
<b>Department of Game &amp; Fish:</b>					
Game & Fish - Intercept Fund	30700-717	Income Tax Suspense Fund	1	81900-333	29,383
Game Protection Fund - Bass Habitat Program	19800-516	Transportation & MVD Suspense	1	82500-333	3,710
Game Protection Fund - Wildlife Program	30700-516	Transportation & MVD Suspense	1	82500-333	6,250
<b>Department of Health:</b>					
Child Support Enforcement Fund	97800-630	Income Tax Suspense Fund	1	81900-333	2,406,984
DOH Breast Cancer Awareness	06100-665	Transportation & MVD Suspense	1	82500-333	14,700
Blood Donor Plate	06105-665	Transportation & MVD Suspense	1	82500-333	425
Children's Eyesight Fund	26104-665	Transportation & MVD Suspense	1	82500-333	25,794
Brain Injury Services Fund	76800-624	Transportation & MVD Suspense	1	82500-333	660,505
<b>Department of Public Safety:</b>					
Federal Bureau of Investigations	12805-790	Hazmat Finger Printing Fee Fund	1	68000-333	42,882
<b>Department of Tourism:</b>					
National Scenic By-Ways Program	03000-418	Transportation & MVD Suspense	1	82500-333	7,175
Litter Control & Beautification Fund	26200-418	Transportation & MVD Suspense	1	82500-333	1,657,116
<b>Department of Transportation:</b>					
State Road Fund Appropriations	20100-805	Transportation & MVD Suspense	1	82500-333	166,681,532
Recycling & Illegal Dumping Fund	20200-805	Transportation & MVD Suspense	1	82500-333	1,814,143
Local Government Road Fund	20300-805	Transportation & MVD Suspense	1	82500-333	931,590
Motorcycle Training Fund	20600-805	Transportation & MVD Suspense	1	82500-333	135,296
DOT DWI Prevention & Education Program	20700-805	Transportation & MVD Suspense	1	82500-333	516,323
Traffic Safety Education & Enforcement Fund	20800-805	Transportation & MVD Suspense	1	82500-333	396,833
Interlock Device Fund	82600-805	Transportation & MVD Suspense	1	82500-333	803,650
State Road Fund Appropriations	20100-805	TAA Suspense Fund	1	82800-333	203,369,853
Local Government Road Fund	20300-805	TAA Suspense Fund	1	82800-333	18,740,728
State Aviation Fund	20500-805	TAA Suspense Fund	1	82800-333	393,620
Highway Infrastructure Fund	20200-805	CRS TAA Suspense Fund	1	83200-333	5,528,643
Local Government Road Fund	20300-805	CRS TAA Suspense Fund	1	83200-333	1,842,881
State Aviation Fund	20500-805	CRS TAA Suspense Fund	1	83200-333	5,083,337
<b>Department of Veterans' Services:</b>					
Veterans National Cemetery	12300-670	Income Tax Suspense Fund	1	81900-333	10,062
New Mexico VSC/ Enterprise Fund	20490-670	Transportation & MVD Suspense	1	82500-333	4,887
New Mexico VSC/ Armed Forces	78400-670	Transportation & MVD Suspense	1	82500-333	76,736

STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FIDUCIARY FUND INTER-AGENCY TRANSFERS

Fiscal Year Ended June 30, 2013

Account Transferred to:	Cash Account Transfer to:	Account Transferred from:	Reason for Transfer	Cash Account Transfer from:	Net Amount
<b>Department of Workforce Solutions</b>					
Unemployment Insurance Benefit Intercept		Income Tax Suspense Fund	1	81900-333	\$ 1,489,251
<b>Energy, Minerals &amp; Natural Resources Department:</b>					
EMNRD Parks & Recreation/Vietnam Memorial	20010-521	Income Tax Suspense Fund	1	81900-333	14,380
EMNRD Forest Relief	32100-521	Income Tax Suspense Fund	1	81900-333	13,251
EMNRD - Parks & Recreation	20010-521	TAA Suspense Fund	1	82500-333	451,109
Boat Suspense Fund	77300-521	Transportation & MVD Suspense	1	82500-333	590,697
EMNRD Parks & Recreation	20010-521	Transportation & MVD Suspense	1	82800-333	25,273
Motor Boat Fuel Tax Fund	30900-521	TAA Suspense Fund	1	82800-333	197,241
NM Youth Conservation Corps Fund	01400-522	CRS TAA Suspense Fund	1	83200-333	3,660,471
EMNRD Capital Projects/ 1994	64600-521	CRS TAA Suspense Fund	1	83200-333	5,123,945
OCD - Oil and Gas Reclamation	31100-521	Oil & Gas Accounting Suspense	1	83300-333	4,741,482
<b>General Services Department:</b>					
Handicapped Phone Access Fund	56500-350	TAA Suspense Fund	1	82800-333	3,006,294
<b>Military Affairs Department</b>					
Veterans Service/Armed Forces	10580-705	Income Tax Suspense Fund	1	81900-333	13,399
<b>New Mexico Administrative Office of the Courts:</b>					
Admin Office of the Courts	53300-218	Income Tax Suspense Fund	1	81900-333	279,855
Jury & Witness Fee Fund	01200-218	Transportation & MVD Suspense	1	82500-333	601,855
Court Automation Fund	07800-218	Transportation & MVD Suspense	1	82500-333	1,346,282
Magistrate Court Operations Fund	11120-218	Transportation & MVD Suspense	1	82500-333	508,140
Court Facilities Fund	53200-218	Transportation & MVD Suspense	1	82500-333	1,441,088
Local Government Corrections Fund	68800-218	Transportation & MVD Suspense	1	82500-333	2,484,050
<b>New Mexico Retiree Health:</b>					
NM Retiree Health Care Fund	38100-343	CRS TAA Suspense Fund	1	83200-333	21,521,796
<b>Office of the State Treasurer:</b>					
Severance Bonding Fund	41000-394	Oil & Gas Accounting Suspense	1	83300-333	414,374,805
<b>Public Employees Retirement Association:</b>					
PERA - Administration	60600-366	PIT TAA Suspense Fund	1	64200-333	2,400,000
<b>Public Regulation Commission</b>					
Firefighters Survivor Fund	56400-430	Transportation & MVD Suspense	1	82500-333	7,491
<b>Regulation and Licensing Department</b>					
Animal Shelter Fund	20120-420	Transportation & MVD Suspense	1	82500-333	10,750
<b>State Land Office:</b>					
ONGARD/ Oil & Gas Royalty	26400-539	Oil & Gas Accounting Suspense	1	83300-333	34,555
<b>Secretary of the State:</b>					
Public Election Fund	81200-370	Unclaimed Property Susp Fund	1	71000-333	1,200,000
<b>Workers Compensation Administration:</b>					
Workers' Compensation Administration Fund	98200-632	Workers' Compensation Suspense Fund	1	83100-333	12,424,010
					<u>\$ 5,168,244,126</u>

**Transfer Purpose**

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

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2013**

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2013</u>
<b><u>ASSETS</u></b>				
Interest in State General Fund Investment Pool	\$ 795,243,680	8,758,635,412	8,726,982,120	826,896,972
Cash on hand and in banks	2,506,074	3,853,676	3,697,844	2,661,906
Receivables:				
Counties, municipalities and fee agents	368,152	4,072,822	368,152	4,072,822
Due from state general fund	173,888,651	294,576,252	286,225,348	182,239,555
Due from other state agencies	31,523,452	34,287,890	31,523,452	34,287,890
Due from other non-agency funds	-	90,325	-	90,325
Due from taxpayers	755,143,570	1,575,089,926	1,521,624,077	808,609,419
Other receivables - stale dated warrants	145,156	145,570	145,156	145,570
Citations	26,183,585	14,712,470	14,902,516	25,993,539
Tax assessments	903,073,395	1,037,634,103	903,073,395	1,037,634,103
Allowance for uncollectibles	(929,256,981)	(1,063,703,273)	(929,256,981)	(1,063,703,273)
	<hr/>			
Total assets	1,758,818,734	10,659,395,173	10,559,285,079	1,858,928,828
	<hr/> <hr/>			
<b><u>LIABILITIES</u></b>				
Unidentified tax collections	\$ 234,652,061	7,682,284,856	7,666,336,524	250,600,393
Due to state general fund	795,523,017	852,593,630	795,523,017	852,593,630
Due to counties and municipalities	287,413,251	304,890,197	287,413,251	304,890,197
Due to other state agencies	213,685,636	217,898,813	213,685,636	217,898,813
Due to other non-agency funds	3,859,095	543,740,980	543,446,352	4,153,723
Refunds due to taxpayers	220,652,414	579,097,259	573,012,236	226,737,437
Due to external parties	15,200	37,870	15,200	37,870
Other liabilities - stale dated warrants	980,383	2,016,765	980,383	2,016,765
Reserve for litigated assessments	2,037,677	-	2,037,677	-
	<hr/>			
Total liabilities	\$ 1,758,818,734	10,182,560,370	10,082,450,276	1,858,928,828
	<hr/> <hr/>			

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF CASH BALANCES  
Year Ended June 30, 2013**

**Interest in the State General Fund Investment Pool**

Account Name	Fund Type	DFA SHARE Acct No.	Bank Balance per State Treasurer	Adjustments Not in SHARE	Balance per Financial Statements
<b>Governmental Funds:</b>					
TRIMS Expenditure Fund	Capital	08600 - 333	\$ -	-	-
TRD - Operating Fund	Govt'l	17200 - 333	19,000,529	-	19,000,529
Property Valuation Fund	S R	34800 - 333	394,969	-	394,969
Native American Fund	S R	10690 - 333	12,677	-	12,677
Capital Improvement Project	Capital	88500 - 333	-	-	-
Drive MVD	Govt'l	79800 - 333	11,110,389	-	11,110,389
Weight Distance Tax Admin Fee	Govt'l	99400 - 333	4,948,983	-	4,948,983
<b>Total governmental funds</b>			35,467,547	-	35,467,547
<b>Fiduciary Funds:</b>					
Restitution Fund	Agency	23600 - 333	-	-	-
Oil & Gas Ad Valorem	Agency	23800 - 333	-	-	-
Corporate Income Tax (CIT)	Agency	27900 - 333	62,292,703	-	62,292,703
Personal Income Tax (PIT)	Agency	64200 - 333	74,315,425	-	74,315,425
HazMat Fingerprinting	Agency	68000 - 333	12,086	-	12,086
County & Municipal Gasoline Tax	Agency	68100 - 333	387,142	-	387,142
County & Municipal Recreation	Agency	68300 - 333	-	-	-
Small Cities Assistance	Agency	68400 - 333	4,324,464	-	4,324,464
Motor Transportation	Agency	70600 - 333	132,000	-	132,000
Local Liquor Excise Tax	Agency	70900 - 333	-	-	-
Unclaimed Property Suspense Fund	Agency	71000 - 333	5,238,655	-	5,238,655
Oil & Gas Ad Valorem	Agency	71300 - 333	-	-	-
Ad Valorem Equipment	Agency	71500 - 333	1,252	-	1,252
Income Tax Suspense Fund	Agency	81900 - 333	3,518,908	-	3,518,909
Transportation & Motor Vehicle	Agency	82500 - 333	23,662,136	-	23,662,136
Unidentified Remittances	Agency	82700 - 333	9,739	-	9,739
Enhanced 911 Surcharge	Agency	82800 - 333	71,308,829	-	71,308,828
Delinquency List Suspense	Agency	83000 - 333	3,775,051	-	3,775,051
Worker's Compensation	Agency	83100 - 333	586,361	-	586,361
CRS (TAA) Suspense Fund	Agency	83200 - 333	436,993,206	-	436,993,206
Oil and Gas Accounting	Agency	83300 - 333	140,339,015	-	140,339,015
<b>Total fiduciary funds</b>			826,896,972	-	826,896,972
<b>Total interest in the State General Fund Investment Pool</b>			\$ 862,364,519	-	862,364,519

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF CASH BALANCES (CONTINUED)  
JUNE 30, 2013**

**Cash in Banks**

As of June 30, 2013, reconciled motor vehicle field office cash in banks (checking accounts) totaled \$133,066 as follows:

<u>Name of Depository Bank</u>	<u>Account Name</u>	<u>Balance per Financial Statements</u>	<u>Bank Balance</u>
Western Bank (Lordsburg)	Motor Transportation Department	\$ 22,236	22,236
Community First Bank (Las Vegas)	Taxation & Revenue Department	21,733	21,733
First National Bank (Alamogordo)	MVD Cloudcroft-15N	10,402	10,402
The First Natl Bank of New Mexico	NM Taxation & Revenue Department	9,938	9,938
Farmers & Stockmens Bank (Clayton)	NM Taxation & Revenue Department	9,288	9,288
Western Bank (Lordsburg)	NM Taxation & Revenue Department	8,642	8,642
People's Bank	NM Taxation & Revenue Department	7,834	7,834
Southwest Capital Bank	NM Taxation & Revenue Department	6,883	6,883
People's Bank	NM Taxation & Revenue Department	6,222	6,222
My Bank (Belen)	NM Taxation & Revenue Department	6,052	6,052
Western Commerce Bank (Carlsbad)	Tatum MVD	5,709	5,709
AmBank	NM Taxation & Revenue Department	5,273	5,273
First State Bank (Socorro)	Taxation & Revenue Department	4,651	4,651
Citizen's Bank of Clovis	NM Taxation & Revenue Department	3,054	3,054
Western Commerce Bank (Carlsbad)	Loving MVD	1,991	1,991
The First Natl Bank of New Mexico	NM Taxation & Revenue Department	1,150	1,150
Farmers & Stockmens Bank (Clayton)	NM Taxation & Revenue Department	1,136	1,136
Community First Bank (Las Vegas)	Taxation & Revenue Department	774	774
Community First Bank (Las Vegas)	Taxation & Revenue Department	98	98
<b>Total cash in banks</b>		<b>133,066</b>	<b>133,066</b>
Deposits in transit from agents		2,528,840	2,528,840
Outstanding checks and adjustments		-	-
<b>Total cash on hand and in banks</b>		<b>\$ 2,661,906</b>	<b>2,661,906</b>

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

**SINGLE AUDIT**

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2013**

<b>Federal Agency/ Pass-Through Agency</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Identifying Number</b>	<b>Federal Participating Expenditures</b>
U.S. Department of Interior Audits of Oil and Gas Leases	15.427	N/A	<u>\$ 978,734</u>
U.S. Department of Transportation CDL Project and Administration	20.232	N/A	<u>80,453</u>
U.S. Department of Homeland Security Driver's License Security Grant Program	97.089	N/A	<u>2,056,575</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 3,115,762</u></u>

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2013**

**NOTE 1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the Taxation and Revenue Department under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, changes in net assets or cash flow on the Department.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 3. NON-CASH ASSISTANCE**

The Department did not receive any Federal non-cash assistance in fiscal year 2013.

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

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

We have audited, 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, the general fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund of the State of New Mexico Taxation and Revenue Department (Department) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and the combining and individual funds of the Department, presented as supplementary information, and have issued our report thereon dated December 5, 2013.

**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 on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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. 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.

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

Our consideration of internal control 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 09-02 that we consider to be a significant deficiency.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 09-01 and 13-01 to 13-03.

#### **The Department's Responses to Findings**

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

#### **Purpose of this Report**

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

*Mess Adams LLP*

Albuquerque, New Mexico  
December 5, 2013

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE  
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

**Report on Compliance for the Major Federal Program**

We have audited the State of New Mexico Taxation and Revenue Department's (Department) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Department's major federal program for the year ended June 30, 2013. The Department's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

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

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

### **Report on Internal Control Over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

*Mess Adams LLP*

Albuquerque, New Mexico  
December 5, 2013

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2013**

09-01	Information Technology – User Account and Identity Management	Revised, repeated, and renamed as Information Technology - MVD-MVD2 Controls
09-02	Internal Control Monitoring for Tax Systems	Revised and repeated

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2013**

**A. SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

Type of auditors' report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(s) identified?  Yes  None Reported

Non-compliance material to financial statements noted?  Yes  No

*Federal Awards*

Internal control over major programs:

- Material weakness (es) identified?  Yes  No
- Significant deficiency(s) identified?  Yes  None Reported

Type of auditor's report issued on compliance for major program: Unmodified

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

Identification of Major Programs

CFDA Number	Name of Federal Program or Cluster
97.089	Driver's License Security Grant Program
Dollar threshold used to distinguish between type A and type B programs <span style="float: right;">\$ <u>300,000</u></span>	
Auditee qualified as low-risk auditee? <span style="float: right;"><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</span>	

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**09-02 Internal Control Monitoring for Tax Systems (Significant Deficiency)**

CONDITION

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

CRITERIA

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

EFFECT

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

CAUSE

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

RECOMMENDATION

We recommend that the Department develop formal policies and procedures for periodic monitoring of the internal control activities over the tax systems' receipts and distributions to beneficiaries and the related allocations.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

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

RECOMMENDATION (CONTINUED)

The nature, extent and timing of periodic monitoring should be determined based on a risk assessment by the Department. We believe that Internal Audit, which is tasked by the organization to assess risk and ensure controls within the organization are operating effectively, should drive the process of monitoring the tax systems. We believe that some level of monitoring should occur each time there is a tax rate change (January 1 and July 1), change in statute that could affect the either receipt or distribution, and when a system upgrade occurs. The monitoring should include a coordinated, risk based approach to testing the operating effectiveness of key controls and processes.

We also recommend transactional testing for certain attributes to ensure the mathematical correctness of the distributions. Transactional testing should include testing the input and the output of the tax systems in a test environment. Internal Audit, Distributions, and IT should work together to walk through the transactions selected for testing from the point at which a receipt is entered in the system until the distribution occurs.

MANAGEMENT RESPONSE

The Department has a transactional testing process for system modifications to ensure mathematical correctness of distributions. This testing occurs in a test environment. The Department acknowledges the process is not well documented which has hindered the independent validation of the GenTax system. The Department will formally document the transactional process testing and develop a formal independent validation process by March 31, 2014. The Department's Internal Audit will review the process, validate the transactional testing and report any findings by July 31, 2014.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

As required by the New Mexico Administrative Code (NMAC) and included in the New Mexico State Audit Rule, section 2.2.2.10 I. (1)(b) and the New Mexico Statutes Annotated (NMSA) Section 12-6-5 NMSA 1978, “each report shall set out in detail, in a separate section, any violation of law or good accounting practices found by the audit”. The remaining audit findings meet this criterion and accordingly have been presented as non-compliance in accordance with New Mexico State Audit Rule:

**09-01 Information Technology – MVD/MVD2 Controls (Non-Compliance in Accordance with New Mexico State Audit Rule)**

CONDITION

During our testing of the MVD/MVD2 information technology system, we noted the following:

- There is no periodic audit of user access privileges performed to ensure user access to MVD/MVD2 is current and appropriate based on individual job responsibilities.
- MVD z/os 1.11 lacked final approval documentation that states that management had reviewed and approved the system upgrade. In addition, we were unable to verify that segregation of duties exist between IT staff responsible for moving code into production.
- There are no formal system development and change management policies and procedures in place for system upgrades and system changes for Webfile and MVD/MVD2.

CRITERIA

Per State of NM Statewide Guideline “Enterprise IT Security Policy”, S-GUIDE-002.003, “the State of New Mexico shall securely and economically protect its business functions including public access to appropriate information and resources, while maintaining compliance with legal requirements established by existing Federal and State statutes pertaining to confidentiality privacy, accessibility, availability, and integrity.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**09-01 Information Technology – MVD/MVD2 Controls (Non-Compliance in Accordance with New Mexico State Audit Rule) (Continued)**

CRITERIA (CONTINUED)

In accordance with ISACA's Control Objectives for Information and related Technology (COBIT) framework, a change management process (AI6 and AI7) includes controls that provide reasonable assurance that system changes of financial reporting significance are authorized, appropriately tested before being moved to production and that segregation of duties exist between IT staff responsible for moving a system change into production and the IT staff involved in the development.

EFFECT

Absence of formalized change management policy and the other required processes for change management poses risks of unauthorized or incorrect modification in the MVD/MVD2. The lack of standardized procedures in reviewing users' access could result in possible inappropriate access that may lead to unauthorized modification in the system.

CAUSE

The Department does not have formalized procedures in place to perform periodic audit of user access privilege and to approve and review system upgrades.

RECOMMENDATION

We recommend the following:

- Establish a formal procedure to perform periodic audit of user access privileges for MVD/MVD2. It is important that these reviews are performed on a scheduled basis, at a minimum annually, to ensure terminated employees' access has been removed or disabled. The review should also ensure that access privileges to financial systems continue to be in alignment with individual user job responsibilities.
- System development process should be documented as evidence that system changes are carefully designed and configured to ensure financial statement transactions and financial reports continue to be accurate and complete after MVD/MVD2 system changes are implemented. It is recommended to create an official documented policy that is accessible to all relevant groups to manage system developments and changes, including documentation of test procedure and

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**09-01 (Revised and Repeated) Information Technology – MVD/MVD2 Controls  
(Non-Compliance in Accordance with New Mexico State Audit Rule) (Continued)**

results. We also recommend that the Department review who in IT has the ability to promote production code and ensure that segregation of duties is being enforced.

**MANAGEMENT'S RESPONSE**

ITD/MVD concurs with the audit findings and the responses to the individual findings are listed below each finding.

- There is no periodic audit of user access privileges performed to ensure user access to MVD/MVD2 is current and appropriate based on individual job responsibilities.
  - Solution: The Department is in the process of forming a committee to look at this issue. An application that will aid in the periodic review of user ID's is being developed. Depending on the recommendations and requirements of the committee, this application and associated process may be deployed as early as June of fiscal year 2014.
- MVD z/os 1.11 lacked final approval documentation that states that management had reviewed and approved the system upgrade. In addition, we were unable to verify that segregation of duties exist between IT staff responsible for moving code into production.
  - Solution:
    - Short-term - The current process involves the use of email as approval documentation. When a system upgrade or fix is to be implemented, an email approving the migration into production is sent from MVD. The department will look into a hard copy form that will contain signatures from the users.
    - Long-term – An approval process will be implemented as part of the MVD System Re-engineering Project, which is scheduled to begin by January 1, 2014.
    - Segregation of Duties - Code changes are moved into production by management. Code change/development is completed by the developers.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINANCIAL STATEMENT FINDINGS (CONTINUED)**

MANAGEMENT'S RESPONSE (CONTINUED)

**09-01 Information Technology – MVD/MVD2 Controls (Non-Compliance in Accordance with New Mexico State Audit Rule) (Continued)**

- There are no formal system development and change management policies and procedures in place for system upgrades and system changes for Webfile and MVD/MVD2.
  - Solution:
    - Short-term - The current process involves the use of email as change management documentation. When a system upgrade or fix is to be implemented, an email approving the migration into production is sent from MVD. The department will look into a hard copy form that will contain signatures from the users.
    - Long-term – A formal system development and change management process will be implemented as part of the MVD System Re-engineering Project, which is scheduled to begin by January 1, 2014.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**13-01 Information Technology – ONGARD Controls (Non-Compliance in Accordance with New Mexico State Audit Rule)**

CONDITION

During our testing of the ONGARD information technology system, we noted the following:

1. While an email was initiated to perform a periodic review of ONGARD users, no evidence exists in response to the request initiated to take action on the accounts identified in question.
2. ONGARD z/os 1.11 lacked final approval documentation that states that management had reviewed and approved the system upgrade.
3. Due to ONGARD not being transactional in nature, data changes through data corrections in ONGARD cannot be maintained and logged.
4. It is unknown if a disaster recovery plan exists for the mainframe supporting ONGARD. As the mainframe is supported wholly by DoIT, the Department was unsure if it could be recovered in the event of a disaster. It was also noted that it is also not regularly maintained with current OS version and patching.

CRITERIA

Per State of NM Statewide Guideline “Enterprise IT Security Policy”, S-GUIDE-002.003, “the State of New Mexico shall securely and economically protect its business functions including public access to appropriate information and resources, while maintaining compliance with legal requirements established by existing Federal and State statutes pertaining to confidentiality privacy, accessibility, availability, and integrity.

In accordance with ISACA’s Control Objectives for Information and related Technology (COBIT) framework, a change management process (AI6 and AI7) includes controls that provide reasonable assurance that system changes of financial reporting significance are authorized, appropriately tested before being moved to production and that segregation of duties exist between IT staff responsible for moving a system change into production and the IT staff involved in the development. Framework (DS4), to ensure continuous service, a Disaster Recovery and Business Continuity Plans need to be developed and tested to reduce impact of a major disruption on key business functions and processes. The plans should be based on risk understanding of potential business impacts and address requirements for resilience, alternative processing and recovery capability of all critical IT services. They should also cover usage guidelines, roles and responsibilities, procedures, communication processes, and the testing approach.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**13-01 Information Technology – ONGARD Controls (Non-Compliance in Accordance with New Mexico State Audit Rule) (Continued)**

**EFFECT**

Security issues identified decreases overall system security which makes the infrastructure vulnerable to attack and unauthorized data access or modification. The absence of a formal Disaster Recovery Plan may pose question as to the Department's ability to respond and recover its critical data and applications in the event of an unforeseen disaster.

**CAUSE**

1. No formal approval structure of data base prevents strong audit trail.
2. No formal approval structure of data base prevents strong audit trail.
3. No formal approval structure of data base prevents strong audit trail.
4. The Department does not have the ability to change IT controls over ONGARD and this has reduced the Department's ability the influence the IT control environment

**RECOMMENDATION**

We recommend the following:

1. Review needs to be completed with a timely response from the assigned business owner(s) with request for user access as necessary. If user access change is requested from the review by the business owner, the assigned administrator makes the change after the request is received. The administrator should confirm the change and produce an updated user access list to confirm that the change(s) requested has/have been made.
2. Implement a process to review and approve system upgrades. Final review and approval will ensure that the system is production ready, and that all of the necessary upgrade steps had been completed.
3. Implement a process in order to track data changes within ONGARD. Without a way to track and determine the status of data changed in ONGARD, there is potential that failures in data changes or unauthorized changes get overlooked.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**13-01 Information Technology – ONGARD Controls (Non-Compliance in Accordance with New Mexico State Audit Rule) (Continued)**

RECOMMENDATION (CONTINUED)

4. Create a comprehensive disaster recovery plan for the mainframe to bring assurance to the ONGARD team that the system will be recoverable in case of a disaster. The plan should cover staff roles and responsibilities, system recovery steps, and data restoration procedures. It would be prudent for the Department to test the Disaster Recovery Plan to ensure the viability of the plan and the timeliness of its execution.

MANAGEMENT'S RESPONSE

- “While an email was initiated to perform a periodic review of ONGARD users, no evidence exists in response to the request initiated to take action on the accounts identified in question.”
  - Since the audit, the ONGARD team has automated the security review. A job runs quarterly and mails the tri-agency security officers a list of active ONGARD users. There is then a manual follow-up by the ONGARD team in the case of no response.
- “ONGARD z/os 1.11 lacked final approval documentation that states that management had reviewed and approved the system upgrade.”
  - ONGARD is not the system owner. The ONGARD system runs on the DoIT provided platform and all maintenance and upgrades are handled by them. There is a formal “users group” for systems programming that DoIT uses to address mainframe operations and maintenance. DoIT maintains Systems Programming Meeting Minutes. ONGARD works with this group to ensure we are aware of any changes occurring on the mainframe that could impact this system.
  - An ONGARD Stabilization and Modernization agreement was reached and signed-off on by the Secretaries of EMNRD, DoIT and TRD and the Commissioner of Public Lands (SLO). The agreement states that there was evidence of acceptable performance on the z/OS 1.11 and that all parties agreed to move forward with both z/OS 1.11 implementation and the ONGARD Modernization Project which was funded in the same appropriation with ONGARD Stabilization.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**13-01 Information Technology – ONGARD Controls (Non-Compliance in Accordance with New Mexico State Audit Rule) (Continued)**

MANAGEMENT’S RESPONSE (CONTINUED)

- “Due to ONGARD not being transactional in nature, data changes through data corrections in ONGARD cannot be maintained and logged”.
  - Normal transaction logging is inadequate in ONGARD. Unlike modern database architecture, only the last transaction log is permanently recorded in a transaction log meaning that only the last change is available if auditing is necessary. This flaw is a serious structural problem and it will be addressed as a new ONGARD system is planned. The deficiency cannot be corrected on the existing platform without major system change. Prior audits have recommended that ONGARD be modernized and the TRD IT management team agrees with that recommendation and TRD and DoIT management are working toward that goal. The ONGARD Modernization project is underway and the first major sub-project is a business process analysis engagement with the objective of providing a to-be model that will be used to define the effort for a replacement system. This long-term project will address the issues with transaction logging.
  - Transaction logging for ONGARD Data Corrections is robust and there is a process for logging the transactions. An ONGARD Service Request is opened for all data correction requests. All data corrections are captured in a permanent mainframe file and can be accessed via a TSO inquiry. Both the Service Request and the mainframe transaction are preserved in permanent files. Although batch processing has been suggested in prior audits as an improvement step, we have found that rapid processing of data corrections is a customer requirement and that batch processing is not practical. Since access to the archival files is limited in the current process, a Service Request will be opened to allow restricted audit access to the data correction archival files. This will allow access without having to write programs or use system utilities.
- “It is unknown if a disaster recovery plan exists for the mainframe supporting ONGARD. As the mainframe is supported wholly by DoIT, the Department was unsure if it could be recovered in the event of a disaster. It was also noted that it is also not regularly maintained with current OS version and patching”.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**13-01 Information Technology – ONGARD Controls (Non-Compliance in Accordance with New Mexico State Audit Rule) (Continued)**

MANAGEMENT'S RESPONSE (CONTINUED)

- The ONGARD system is subject to DoIT when it comes to mainframe system recovery and Disaster Recovery planning. In our annual IT planning cycle, this has been identified as a major risk for at least the last five years. To date, the DoIT team has not provided any response to ongoing questions about the DR plan nor has DoIT responded to repeated inquiries about development of a service level agreement. The ONGARD server based portion of the system (~20%) does have a DR plan and we are close to having a remote data store (equipment is operational at our current location) once DoIT opens up the remote site to customers. ONGARD and TRD management agree with the audit points related to the risk associated with a service provider who doesn't provide specific assurances that the IBM mainframe can be recovered after a disaster. The ONGARD and TRD ITD team will continue to press DoIT for improvements in communication about DR/BC and service level agreements. The objective is to work with the service provided (DoIT) to develop and test DR/BC procedures.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**13-02 Information Technology – GenTax Controls (Non-Compliance in Accordance with New Mexico State Audit Rule)**

CONDITION

During our testing of the GenTax information technology system, we noted that regular audits of user privileges in GenTax are occurring to ensure user access to these financial systems is current and appropriate based on individual job responsibilities. There was a periodic access review performed during the audit period for the v6 and v9 application upgrade, however the process has not been documented.

CRITERIA

Per State of NM Statewide Guideline “Enterprise IT Security Policy”, S-GUIDE-002.003, “the State of New Mexico shall securely and economically protect its business functions including public access to appropriate information and resources, while maintaining compliance with legal requirements established by existing Federal and State statutes pertaining to confidentiality privacy, accessibility, availability, and integrity.

In accordance with ISACA’s Control Objectives for Information and related Technology (COBIT) framework, a change management process (AI6 and AI7) includes controls that provide reasonable assurance that system changes of financial reporting significance are authorized, appropriately tested before being moved to production and that segregation of duties exist between IT staff responsible for moving a system change into production and the IT staff involved in the development.

EFFECT

The lack of standardized procedures in reviewing users’ access could result in possible inappropriate access that may lead to unauthorized modification in the system.

CAUSE

The Department does not have formalized procedures in place to document results of review of users’ access.

RECOMMENDATION

Undocumented process to audit user access accounts could leave unknown to business owners and administrators the process to be followed to conduct the audit resulting to an incomplete process performed. It is recommended to create a formal access review to detail the user access review process and the results be documented.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**13-02 Information Technology – GenTax Controls (Non-Compliance in Accordance with New Mexico State Audit Rule) (Continued)**

MANAGEMENT’S RESPONSE

A process exists to validate that GenTax users’ access are authorized, approved and current as part of periodic user access audits. As part of the new Information Security policies rollout, management will implement additional processes to retain results of the periodic (GenTax) user access audits for review purposes.

The GenTax Bureau has a documented process for reviewing physical and “all access” access however functional access is granted based upon requests by user’s management. The GenTax Bureau does not audit functional access because we cannot adequately determine what a particular user’s access should be; this is determined by each user’s manager. The GenTax Bureau has recommended implementing a centralized security model in which that office determines and audits proper user access.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**13-03 Information Technology – Overall IT Controls (Non-Compliance in Accordance with New Mexico State Audit Rule)**

CONDITION

During our testing of the overall information technology system, we noted the following:

1. There is no periodic audit Active Directory Accounts to ensure user access is current and appropriate based on individual job responsibilities.
2. The infrastructure department has not created, formalized, and documented a security incident response plan.
3. The current password policy for Non-ONGARD Active Directories is inadequate for the security of the network at the New Mexico Taxation and Revenue Department.
4. There are no formal policies and procedures in place to delete or disable terminated employee access privileges to New Mexico TRD application and network systems.

CRITERIA

Per State of NM Statewide Guideline “Enterprise IT Security Policy”, S-GUIDE-002.003, “the State of New Mexico shall securely and economically protect its business functions including public access to appropriate information and resources, while maintaining compliance with legal requirements established by existing Federal and State statutes pertaining to confidentiality privacy, accessibility, availability, and integrity.

In accordance with ISACA’s Control Objectives for Information and related Technology (COBIT) Framework DS5 (Ensure System Security) provides that the need to maintain integrity of information and protect IT assets requires a security management process. This process includes establishing and maintain IT security and roles and responsibilities, policies, standards, and procedures. Security management also includes performing security monitoring and periodic testing and implementing corrective actions for identified security weakness or incidents. Effective security management protects all IT assets to minimize the business/financial impact of security vulnerabilities and incidents.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**13-03 Information Technology – Overall IT Controls (Non-Compliance in Accordance with New Mexico State Audit Rule) (Continued)**

EFFECT

Security issues identified decreases overall system security which makes the infrastructure vulnerable to attack and unauthorized data access or modification.

CAUSE

1. Formal processes have not yet been implemented.
2. Formal processes have not yet been implemented.
3. Stronger password policy has not been implemented.
4. The Department does not have control over ONGARD and thus has reduced ability to influence the IT control environment. Formal policies and procedures have not been implemented.

RECOMMENDATION

We recommend the following:

1. Establish a formal process to schedule audits of Active Directory group memberships. Regularly scheduled audits of Active Directory group memberships are a way to guard against employees having unnecessary assess. Audits should be initiated from IT and performed by those who have the greatest understanding of employee roles. A collaborative effort between IT and the business units will produce the most accurate and timely information.
2. Create a formal, written incident response plan detailing steps for the IT department's involvement in the review and approval process of incidents being reported and handled by the third party. The plan should lay out roles of individuals and the specific response of team members, and include other business areas as needed. After each security incident, a debrief meeting should occur and information around the incident should be logged and kept for further reference as needed.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**13-03 Information Technology – Overall IT Controls (Non-Compliance in Accordance with New Mexico State Audit Rule) (Continued)**

RECOMMENDATION (CONTINUED)

3. Implement password policies in accordance with best practices (at least 8 character, expire in 90 days, complexity requirements, etc.). In addition, the system should lock out an account after three failed login attempts. The Department should review their current password policy for network access as well as application access and make the necessary changes to meet best practices to further protect the data maintained at the organization.
4. The Human Resources and various application owners should coordinate efforts to ensure that system access of terminated employees is removed on a timely basis. Application owners should be promptly notified when an employee leaves the organization to ensure their access to key financial and operational systems, transactions, and data is removed. As a mitigating control, performing scheduled user access audits of application and network systems ensures system access is granted to active Department's employees that are aligned with their job responsibilities.

MANAGEMENT'S RESPONSE

- Management has an established process to periodically audit and validate that Active Directory (AD) users are authorized, approved and current. While the process is effective for new users and terminated users, inter-agency transfer employee access is not reviewed consistently. Management will work with all divisions including Human Resources, and extend the established processes to include inter-agency transfer employee access reviews. This process will be completed by March 31, 2014.
- The Security Steering Committee of TRD has reviewed the newly developed (draft) Information Security policies which include specific topics such as Security Incident Response plan and timely removal of terminated employees from systems. The committee has provided feedback. Management is in the process of incorporating the feedback and finalizing the policies for final review and approval. Information Policies will be approved for implementation by March 31, 2014.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**B. FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**13-03 Information Technology – Overall IT Controls (Non-Compliance in Accordance with New Mexico State Audit Rule) (Continued)**

MANAGEMENT'S RESPONSE (CONTINUED)

- Management will review the password policy for network and application access and will make the necessary changes to meet best practices in order to further protect the data maintained at the organization. While we are in compliance with many elements of best practices, ITD will review and evaluate the process of implementing a self-service password reset portal to mitigate changes associated with recommended account threshold settings. Management will complete the review and evaluation by March 31, 2014.

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2013**

**C. FEDERAL AWARD FINDINGS**

None

**STATE OF NEW MEXICO  
TAXATION AND REVENUE DEPARTMENT  
EXIT CONFERENCE  
Year Ended June 30, 2013**

An exit conference was held with the State of New Mexico Taxation and Revenue Department (Department) on December 4, 2013. The conference was held at the Joseph M. Montoya Building in Santa Fe, New Mexico. In attendance were:

**FOR THE DEPARTMENT:**

John Monforte, Deputy Secretary  
David L. Robbins, Administrative Services Division Director, CFO  
Dorothy Lynch, Administrative Services Division Deputy Director  
Brian Shelton, Financial Distributions Bureau Chief  
Dianne Rossbach, Assistant Bureau Chief  
Renee Sandoval, TAA Distribution Financial Manager  
Lilian Ukadike, Cash Control Financial Manager  
Lisa Lucas, Financial Services Bureau Chief

**FOR MOSS ADAMS LLP:**

Scott Eliason, Partner