

**STATE OF NEW MEXICO
TAXATION AND
REVENUE DEPARTMENT
Financial Statements
for the Year Ended
June 30, 2008,
and Independent
Auditors' Report**

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

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STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Official Roster

Year Ended June 30, 2008

<u>Name</u>	<u>Title</u>
Rick Homans	Cabinet Secretary
Dona Wilpolt-Cook	Deputy Secretary
Division Directors:	
Wanda Helms	Administrative Services Division
Phil Salazar	Audit and Compliance Division
Libby Gonzales	Revenue Processing Division
Rick Silva	Property Tax Division
Ken Ortiz	Motor Vehicle Division
Marlin Mackey	Information Services Division
Alvan Romero	Tax Fraud Investigations Division

INDEPENDENT AUDITORS' REPORT

Honorable Bill Richardson, Governor
Honorable Hector H. Balderas, State Auditor
Mr. Rick Homans, Cabinet Secretary
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information and the budget comparison of the general fund of the State of New Mexico Taxation and Revenue Department (Department) as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the Department's nonmajor governmental and fiduciary funds as presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, the aggregate remaining fund information and all respective budgetary comparisons of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not present fairly the financial position of the entire State of New Mexico as of June 30, 2008, 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.

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An Independent Member of the BDO Seidman Alliance

Honorable Bill Richardson, Governor
Honorable Hector H. Balderas, State Auditor
Mr. Rick Homans, Cabinet Secretary
Santa Fe, New Mexico

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Department as of and for the year ended June 30, 2008, and the respective changes in financial position thereof, and the respective budgetary comparisons for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental and fiduciary funds of the Department as of June 30, 2008, and the respective changes in financial position thereof and the respective budgetary comparisons for the nonmajor governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2009, on our consideration of the Department's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 16 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Department's basis financial statements, the combining and individual fund financial statements and budgetary comparisons of the Department. The accompanying schedule of expenditures of federal awards (Schedule 4) is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget, Circular A-133, *Audits of State, Local Governments and Non-Profit Organizations* and is not a required part of the basic financial statements. Schedules 1, 2 and 3 as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements, and have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Meyners + Company, LLC

January 29, 2009

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

**Management's Discussion and Analysis -
Year Ended June 30, 2008**

The New Mexico Taxation & Revenue Department's (Department) 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 \$24,628,185 (net assets). Of this amount, \$8,776,829 (unrestricted designated net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The governmental net assets decreased by \$3,653,770.

The total cost of all department programs, was \$88,897,026.

Department Highlights

FY 2008 TRD Collections and Distributions

Net Collections: TRD collected a total of \$7.96 billion in FY 2008. Combined reporting system taxes (gross receipts, withholding and compensating taxes) were the single largest category of collections at \$4.4 billion, or 55% of total collections. Mineral extraction taxes were next at \$1.4 billion or 18%. Income taxes were \$1.1 billion or 15%. Motor vehicle taxes and fees were \$367 million or 5%.

Net Distributions: TRD distributed a total of \$6.87 billion in FY 2008. \$4.5 billion, or 65.5%, was distributed to the State General Fund. \$1.4 billion, or 20.3 %, was distributed to local governments. \$317 million, or 4.6 %, was distributed to the New Mexico Department of Transportation. \$653 million, or 9.5 %, was distributed to other state funds.

Revenue Enhancement Efforts

The Department continued its initiative to enhance tax collections efforts in fiscal year 2008. In FY08, the Department not only tracked collections, but also tracked the amount of refund and credit requests denied. Both activities have a similar effect; collections add revenues to the General Fund and the denials keep money in the General Fund that would normally be issued via a refund or credit. Goals were established for both activities and the initiative was based on the sum of expected collections and refunds or credits denied. For

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Management's Discussion and Analysis -
Year Ended June 30, 2008 - continued

Department Highlights

Revenue Enhancement Efforts - continued

FY08 the Audit and Compliance Division (ACD) collected an additional \$10,358,589 in back taxes, and denied refund and credit requests of \$1,556,227. Of the collection amount, \$7,249,822 was added to the General Fund, while the entire \$1,556,227 in denials stayed in the General Fund. These amounts are in addition to the baseline collections of \$166,601,216, for an overall total of \$178,416,432.

Compliance Enforcement Program

The Tax Fraud Investigations Division (TFID) was created in late fiscal year 2003. In FY08, there were three criminal prosecution cases submitted to district attorney's offices. TFID has a 100% successful prosecution rate since its creation. Through the end of FY08, TFID has successfully prosecuted a total of 32 tax fraud cases since its creation.

During FY 08, the TFID Internal Audit Bureau completed sixteen Internal Audits. Fifteen of the sixteen internal audits were performed for the Motor Vehicle Division (MVD) and one was performed for the Property Tax Division (PTD). The divisions concurred with the recommendations of the internal audits 100% of the time.

During FY 08, the Internal Investigations Bureau received thirty one referrals and completed thirty one Internal Investigations in a timely manner. The thirty one completed Internal Investigations involved the following entities:

<u>Number of Investigations in FY 08</u>	<u>Division/Department</u>
17	Motor Vehicle Division
6	Audit and Compliance Division
4	Property Tax Division
3	Returns Processing Division
<u>1</u>	New Mexico General Services Department
31	Total

Since the reorganization that took place in 2005, the Internal Investigations Bureau has initiated a policy of completing an Administrative Investigation Report on all internal investigations.

GenTax

Progress continued on the goal to make GenTax the integrated tax system for the Department with 28 tax programs now housed in the GenTax system. Specific accomplishments include: Fed/State extract written and

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

**Management's Discussion and Analysis -
Year Ended June 30, 2008 - continued**

Department Highlights

GenTax – continued

application converted to replace functionality no longer provided by the vendor; PIT Tax Fraud filters refined and added new reports that eliminated much of the manual research that was previously required; completed configuration for PIT Estimated Payment penalty calculation; electronic interfaces for new credit card agent updated; created a new automated process for updating CRS tax rates semiannually created and a new web application to view the rates; Double Local Option Penalty deactivation and penalty; municipal equalization implemented for distribution Compensating Tax; Interest and Penalty changes pursuant legislation (HB436); completed fiscal year changes for Data Marts and Reports with GenTax; GenTax extracts for Data Warehouse project created/modified; enhanced functionality and added new functionality to the 1099 process; implemented a new program for loading Combined Fuel Tax information needed for distributions; upgraded all tax programs to function with the new backend revenue accounting; financial electronic transfers/updates for warrants, direct deposits, and distributions updated into SHARE system; Credit Card and e-Check reconciliation process implemented between the fiscal agent, Official Payments and GenTax; Bankruptcy Manager in GenTax configured; Audit Worksheets for the miscellaneous tax programs in GenTax configuration underway; Audit Timekeeping was implemented; Taxpayer Access Point (TAP) configuration completed for thirteen tax programs including payment functionality for Personal Income Tax, Corporate Income Tax and Combined Reporting System; Backend Revenue Accounting implemented for all tax programs in GenTax; Collection Outsourcing project is also well underway.

The GenTax project team has several projects planned or being implemented. Some of these are: implementing Tax Increment Financing; Collection Outsourcing; implementation of payment option for remaining GenTax programs in the Taxpayer Access Point application, automatic loading of assessments from Data Warehouse into GenTax (gateway), and Business Credit Manager. Each of these projects will be done to the extent funds are available in partnership with Fast Enterprises, the GenTax vendor.

Electronically Filed Tax Returns

The Revenue Processing Division (RPD) received approximately 795,596 Personal Income Tax (PIT) returns and 277,892 Combined Reporting System (CRS) returns (gross receipts tax) that were filed electronically. These returns amount to 58 % of all incoming PIT returns and 24 % of all CRS returns received by the Department.

In addition, RPD received and processed 173,568 PIT returns with a 2-D Bar code. These returns are paper returns that are mailed in, however, data from the returns is electronically read as the return is processed through the scanning equipment and the information is then uploaded into the system automatically without data entry. Approximately 18% - 25% of the electronically filed returns do not meet edit criteria and must be reviewed by the edit error staff. These returns will be included in the electronically filed returns figures in the future.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Management's Discussion and Analysis -
Year Ended June 30, 2008 - continued

Department Highlights

Delinquent Property Accounts

The Property Tax Division, Delinquent Property Tax Bureau is responsible for the collection of real property taxes that are delinquent for two years. During FY08 the Bureau resolved a total of 9,681 delinquent property accounts, either by field collections or through sales, resulting in 48.4% of the delinquent property accounts being resolved. Total collections netted \$2,229,344 in Penalty and Interest and \$270,462 in costs for an overall collection of \$2,499,807.40.

Field collections resolved 7,832 accounts or 39.2% of all delinquent property. The amount of penalty and interest collected through field collections, which is retained by the Department, was \$2,100,401. Field collections also netted \$246,637 in costs, again retained by the Department.

Accounts that are not resolved through a field collection are scheduled for sale. The number of accounts that were offered for sale was 2,065. A total of 33 property tax sales were conducted. Prior to the commencement of the sales, 891 accounts were resolved and 958 tax accounts were sold. A total of 1,849 accounts were resolved through sales or 89.5% of all delinquent property accounts offered for sale (percentage of resolved accounts is based on 20,000 accounts). Penalty and interest collected through sales was \$128,943 and the amount of cost collected through sales was \$23,825.

Financial Responsibility Act

The Motor Vehicle Division (MVD) receives an additional \$2 for each twelve-month period for which a vehicle with a gross vehicle weight under twenty-six thousand pounds is registered for the purposes of enforcing the provisions of the Mandatory Financial Responsibility Act [66-5-201 NMSA 1978] and for creating a multi-language noncommercial driver's license testing program. The Motor Vehicle Division reduced the average uninsured rate in New Mexico from a national high of 33.03% in FY03 to 11% for FY08.

Customer Field Office Wait Time

In FY08, MVD achieved its legislative performance target of 14 minutes for average customer wait time in MVD field offices.

IDNM – Central Issuance

In late FY08, MVD successfully implemented Phase I of Central Issuance statewide. This phase issues New Mexico driver's licenses (DL) and identification cards (ID) utilizing Facial Recognition software and an out-of-state central facility for card production. The Division is scheduled to implement the Document Authentication and Document Recovery systems (Phase II) by April 2009. Phase II will complete the central issuance process for MVD. Central Issuance reduces fraud and identity theft resulting in a more secure DL and ID.

STATE OF NEW MEXICO
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Management's Discussion and Analysis -
Year Ended June 30, 2008 - continued

Department Highlights

Partner Management Unit

MVD created the Partner Management Unit to oversee reporting of MVD transactions and remitting of MVD revenues to the state by state-run field offices, municipalities and county field offices, private retail agents, title service companies, dealers and MVD data vendors. The Unit successfully collected \$6.45 million from its inception in December 2007 to June 2008 and has collected \$19.8 million for the first five months of FY09.

E-Permit

MVD implemented an electronic permit (E-Permit) system to increase compliance in registration of commercial vehicles and payment of the respective weight distance taxes. This new permit system is vehicle specific and allows Motor Transportation Officers the ability to determine if a commercial vehicle is registered to operate in New Mexico or if a trip-tax should be assessed.

MVD Verification and Oversight

MVD instituted:

- Digital image exchange to share driver's license information and images with other states to prevent DL and ID fraud;
- Mandatory automated vehicle checks for all New Mexico vehicle titles to identify stolen vehicles and prevent fraud; and
- Out-of-state DWI checks for out-of-state applicants seeking New Mexico driver's licenses through the newly created Compliance Unit.

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 assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Both statements distinguish between the governmental and business-type activities of the primary government.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Management's Discussion and Analysis -
Year Ended June 30, 2008 - continued

Overview of the Financial Statements - continued

Government-wide Financial Statements - continued. 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 TRIMS Capital Project Fund, the Tax Initiatives Special Revenue 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 and enterprise funds. Fund financial statements also report information about a government's fiduciary funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (enterprise funds) and fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

The major funds include the General Fund, which is the Department's primary operating fund, and the TRIMS capital project fund, which accounts for the acquisition of capital assets or design and development of major computer processing systems. The General Fund includes a special appropriation for funding a program called Revenue Enhancement.

The non-major funds include the Property Valuation special revenue fund, in which funds are legally restricted for loans to counties to assist them with residential and non-residential property valuations, and the Computer Equipment capital project fund, created to fund purchases of computer equipment.

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.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Management's Discussion and Analysis -
Year Ended June 30, 2008 - continued

Overview of the Financial Statements - continued

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. With the implementation of GASB Statement 34, 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. GASB Statement 34 requires that infrastructure assets (roads, bridges, traffic signals, etc.) be 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 and therefore is not required to implement this portion of GASB Statement 34.

Budgetary Comparisons. In addition to MD&A, GASB Statement 34 requires budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget to be presented as Required Supplementary Information (RSI).

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

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Management's Discussion and Analysis -
Year Ended June 30, 2008 - continued

Financial Analysis of the Department as a Whole

Net Assets: Total Department net assets for fiscal year ended June 30, 2008 are \$24,628,185. However, most of those assets are either restricted as to the purposes they can be used for or are invested in capital assets (buildings, equipment, etc.) The unrestricted, designated net assets in Governmental Activities are \$9,555,812 at the end of the fiscal year. The unrestricted net assets are comprised of amounts that have been designated for future use, as these amounts are necessary for operations in the following fiscal year.

The Department's Net Assets

		2008	2007
Assets:			
Current and other assets	\$	26,988,658	28,281,560
Capital assets		10,375,614	13,088,725
Total assets		37,364,272	41,370,285
Liabilities:			
Current liabilities		12,485,087	12,805,001
Long-term liabilities		251,000	283,328
Total liabilities		12,736,087	13,088,329
Net assets:			
Invested in capital assets, net of related debt		10,375,614	12,639,844
Restricted		15,031,554	16,590,950
Unrestricted (deficit)		(778,983)	(948,839)
Total net assets	\$	24,628,185	28,281,955

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

**Management's Discussion and Analysis -
Year Ended June 30, 2008 - continued**

Financial Analysis of the Department as a Whole - continued

Governmental Activities: The table below summarizes the Department's activities for the fiscal years ended June 30, 2008 and 2007. Total change in net assets from the previous fiscal year was \$3,653,770.

The Department's Governmental Activities

	2008	2007
Program expenses	\$ (88,897,026)	(76,969,033)
Program revenue	<u>1,748,686</u>	<u>1,495,736</u>
Net program (expense) revenue	(87,148,340)	(75,473,297)
General revenues	86,043,973	78,684,792
Transfers and reversions	<u>(2,549,403)</u>	<u>(1,197,185)</u>
Net general revenues, special and extraordinary items	83,494,570	77,487,607
Change in net assets	(3,653,770)	2,014,311
Net assets, beginning	<u>28,281,955</u>	<u>26,267,644</u>
Net assets, ending	\$ <u>24,628,185</u>	<u>28,281,955</u>

Revenues for the governmental activities totaled \$87,792,659 and \$80,180,528 in the fiscal years ended June 30, 2008 and 2007 respectively. The change is attributable to an increase in the general fund appropriation plus additional revenue from Weight Distance Tax administrative fees, Enhanced Driver's License fees, Motor Vehicle Administrative fees and interlock fees.

The Department's total expenditures for government-type activities during the fiscal year were \$88,897,026. Approximately 69% of the expenditures of the Department are in the area of personnel services and employee benefits. The second highest area of expenditure within the Department is in the category of other costs (23%). The majority of this amount was used to support the general operations of the Department such as computer usage, telecommunications, printing motor vehicle forms and tax forms, postage, and leases for rent of office space.

The financial position of the Department has decreased but remains consistent with that of the prior year. The decrease in net assets of \$3,653,770 is mainly attributable to the reduction of capital assets in 2008.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Management's Discussion and Analysis -
Year Ended June 30, 2008 - continued

Financial Analysis of the Department as a Whole - continued

Governmental Activities - continued: The General Fund of the Department is used to account for the Department's primary operations and includes a special appropriation for funding a program called Revenue Enhancement. Of the total fund balance of \$14,171,562, \$3,079,796 is legally restricted for items funded with special appropriations received by the Department. An additional \$9,555,812 is designated for subsequent year expenditures related to the Department's non-reverting programs.

The TRIMS capital project fund is used to account for the acquisition of capital assets or design and development of the Department's integrated tax systems. The fund balance of \$703,030 is legally restricted for this purpose.

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 \$1,512,152 is legally restricted for this purpose.

During FY08, capital asset activity included \$57,702 of capital outlay purchases for purchases of machinery and equipment, \$436,568 for data processing equipment, and \$1,122,439 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 approximately \$16,567,508.

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 \$2,172,758 for the Operating Fund. The Operating Budget for Revenues classified as Other State Funds decreased from \$13,832,500 to \$13,583,600 or \$248,900. This was a 2% decrease from the original Operating Budget. Actual revenues collected, which are classified as

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

**Management's Discussion and Analysis -
Year Ended June 30, 2008 - continued**

General Fund Budgetary Highlights - continued

Other State Funds, were \$15,495,523, or \$1,911,923 higher than the Operating Budget Amount. This represents a 14% increase over the budgeted amount.

Actual Federal grants revenue collected were \$1,748,686, which represents a 19% decrease over the original budget amount, but were \$998,932 less than the final budget amount. Seventy-two percent (72%) of all Federal grant revenue is attributable to the Minerals Management Service (MMS) grant.

The \$2,172,758 difference between the original operating revenue budget and the final operating revenue budget included \$640,240 in prior year cash balance re-budgeted. Re-budgeted cash balance consisted of fund balance generated from Financial Responsibility, Enhanced Drivers' Licenses, and Tax Permit Fee funding.

Budget adjustments for the Operating Fund were 2.4% of the original appropriation. The increases were primarily from Federal funds, Motor Vehicle Administrative Fees, and sale of Motor Vehicle data revenues.

The \$490,979 for the Tax Initiatives Fund was comprised of prior year cash balance re-budgeted from the special appropriation.

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 Central Issuance and Tax ID Program to enforce weight-distance for the Audit Compliance Division and the Motor Vehicle Division.

Significant variances between budgeted amounts and actual amounts are primarily due to monies received for special appropriations that were not budgeted in fiscal year 2008, but are planned to be expended in future fiscal years and federal grants awarded to the department.

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

**Management's Discussion and Analysis -
Year Ended June 30, 2008 - continued**

Capital Assets and Debt Administration

At the end of fiscal year 2008, the Department has invested a total of \$23,091,058 in governmental-type activities in capital assets. This amount represents a net decrease (including additions and deductions) of \$1,989,441 (7.9%) over last year's figure of \$24,236,283 in gross capital assets without taking accumulated depreciation into account.

The Department's Capital Assets

	2008	2007
Furniture and Fixtures	\$ 1,189,834	1,218,760
Software	13,834,674	12,712,235
Data Processing Equipment	4,190,106	5,472,213
Machinery and Equipment	3,469,438	5,270,286
Tenant Leasehold Improvements	217,762	217,762
Vehicles	189,243	189,243
	23,091,057	25,080,499
Less accumulated depreciation	12,715,443	11,991,774
Net Total	\$ 10,375,614	13,088,725

More detailed information about the Department's capital assets is presented in Note 4 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

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

**Management's Discussion and Analysis -
Year Ended June 30, 2008 - continued**

Economic Factors and Next Year's Budgets and Rates - continued

The Department's operating budget for fiscal year 2009 is \$86,768,600 and includes 1,241.7 full time equivalents (FTE). The Department received recurring funding of \$419,000 and 8 FTE to address erroneous credits from being issued related to an increase in tax credits; \$466,000 and 8 FTE to expand the Las Cruces Motor Vehicle Division (MVD) office to meet the growing population; \$241,000 and 4 FTE to review MVD partner offices to ensure collection of fees; and \$65,000 and 2 FTE to maintain files and records related to driving while intoxicated cases. The Department also received non-recurring funding of \$1,000,000 to replace imaging equipment, kiosks and eye-testing machines; \$300,000 to convert the integrated database management system; and \$4,120,000 to replace the MVD driver system.

As required by the Accountability in Government Act, fiscal year 2008 was the eighth year the Department has 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.

The majority of the future requested funding for the Department is to address continued revenue enhancement programs and customer service.

Contacting the Agency's Financial Management

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

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

FINANCIAL STATEMENTS

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

Exhibit 1

Statement of Net Assets

AS OF JUNE 30, 2008

**Governmental
Activities**

ASSETS:

CURRENT ASSETS:

Investment in the State Treasurer General Fund

Investment Pool:

Unrestricted on deposit with State Treasurer (Note 2)

\$ 22,673,013

Unrestricted cash on hand

18,425

Restricted for loans to counties

1,149,717

Receivables (Note 3):

Due from federal government

467,212

Loans to counties

356,105

Other receivables, net

3,886

Due from external parties (Note 5)

796,440

Due from other agencies

6,331

Prepaid expenses

77,427

Inventory of supplies

1,440,102

TOTAL CURRENT ASSETS

26,988,658

NON-CURRENT ASSETS:

Capital assets, net (Note 4)

10,375,614

TOTAL ASSETS

37,364,272

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

Exhibit 1 - continued

Statement of Net Assets - continued

AS OF JUNE 30, 2008

	<u>Governmental Activities</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	\$ 6,061,012
Accrued payroll	2,553,275
Due to other state agencies	48,845
Due to state general fund (Note 8)	1,717,094
Deferred revenues	10,000
Other payroll liabilities	30,924
Current portion of long-term liabilities (Note 1):	
Compensated absences	2,063,937
TOTAL CURRENT LIABILITIES	12,485,087
LONG-TERM LIABILITIES:	
Contingent liabilities	251,000
TOTAL LIABILITIES	12,736,087
NET ASSETS:	
Invested in capital assets, net of related debt	10,375,614
Restricted for special appropriations	3,260,560
Restricted for loans to counties	1,512,152
Restricted for TRIMS software upgrades	703,030
Restricted for other purposes	9,555,812
Unrestricted net assets (deficit)	(778,983)
TOTAL NET ASSETS	\$ 24,628,185

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Exhibit 2

Statement of Activities

YEAR ENDED JUNE 30, 2008

	Program Support	Tax Administration Act	Motor Vehicle Program	Property Tax Program	Compliance Enforcement	Other Governmental Funds	Governmental Activities
PROGRAM EXPENSES:							
General government	\$ <u>23,432,050</u>	<u>31,510,119</u>	<u>28,233,900</u>	<u>3,216,331</u>	<u>2,452,992</u>	<u>51,634</u>	<u>88,897,026</u>
TOTAL PROGRAM EXPENSES	23,432,050	31,510,119	28,233,900	3,216,331	2,452,992	51,634	88,897,026
PROGRAM REVENUES:							
Federal operating grants	<u>44,730</u>	<u>1,308,174</u>	<u>395,782</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,748,686</u>
TOTAL PROGRAM REVENUES	<u>44,730</u>	<u>1,308,174</u>	<u>395,782</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,748,686</u>
NET PROGRAM EXPENSE	(23,387,320)	(30,201,945)	(27,838,118)	(3,216,331)	(2,452,992)	(51,634)	(87,148,340)
GENERAL REVENUES:							
General fund appropriations	21,345,000	28,659,800	16,243,700	764,100	2,592,900	-	69,605,500
Other state funds (Note 15):							
Delinquent Property Tax Penalty and Interest							2,595,500
Weight Distance Administrative Fees							1,360,001
MVD Administrative Fees							12,433,823
Interest income							<u>49,149</u>
TOTAL GENERAL REVENUES							86,043,973
TRANSFERS AND REVERSIONS:							
Transfers to other state agencies							(891,000)
Reversions to state general fund - FY08							<u>(1,658,403)</u>
TOTAL TRANSFERS AND REVERSIONS							<u>(2,549,403)</u>
NET GENERAL REVENUES, TRANSFERS AND REVERSIONS							<u>83,494,570</u>
CHANGE IN NET ASSETS							(3,653,770)
NET ASSETS, BEGINNING OF FISCAL YEAR.							<u>28,281,955</u>
NET ASSETS, END OF FISCAL YEAR							\$ <u>24,628,185</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Exhibit 3

Balance Sheet - Governmental Funds

AS OF JUNE 30, 2008

	Major Funds			Total Governmental Funds
	General	TRIMS Capital Project	Other Governmental Funds	
ASSETS:				
Investment in the State Treasurer General Fund				
Investment Pool (Note 2)	\$ 21,784,019	703,030	1,335,681	23,822,730
Cash on hand	18,425	-	-	18,425
Receivables (Note 3):				
Due from federal government	467,212	-	-	467,212
Loans to counties	-	-	356,105	356,105
Other receivables, net	3,886	-	-	3,886
Due from:				
Other funds	844,992	-	-	844,992
Other agencies	-	-	6,331	6,331
Inventory of supplies	1,440,102	-	-	1,440,102
Prepaid expenses	77,427	-	-	77,427
TOTAL ASSETS	\$ 24,636,063	703,030	1,698,117	27,037,210
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 6,055,811	-	5,201	6,061,012
Accrued payroll	2,553,275	-	-	2,553,275
Due to other funds	48,552	-	-	48,552
Due to other state agencies	48,845	-	-	48,845
Due to state general fund (Note 9)	1,717,094	-	-	1,717,094
Deferred revenues	10,000	-	-	10,000
Other liabilities	30,924	-	-	30,924
TOTAL LIABILITIES	10,464,501	-	5,201	10,469,702
FUND BALANCES:				
Reserved for:				
Cash on hand	18,425	-	-	18,425
Inventory of supplies	1,440,102	-	-	1,440,102
Prepaid expenses	77,427	-	-	77,427
Special appropriations (Note 10)	3,079,796	-	180,764	3,260,560
Loans to counties (Note 10)	-	-	1,512,152	1,512,152
TRIMS software upgrades	-	-	-	-
Unreserved, designated (Note 10)	9,555,812	703,030	-	10,258,842
Unreserved, undesignated	-	-	-	-
TOTAL FUND BALANCES	14,171,562	703,030	1,692,916	16,567,508
TOTAL LIABILITIES AND FUND BALANCES	\$ 24,636,063	703,030	1,698,117	27,037,210

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Reconciliation of the Balance Sheet - Governmental Fund
to the Statement of Net Assets

Exhibit 4

YEAR ENDED JUNE 30, 2008

Total Fund Balances - Governmental Funds (Governmental Fund Balance Sheet)	\$ 16,567,508
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets not included in the governmental funds, but capitalized in the Statement of Net Assets	23,091,057
Accumulated depreciation recorded in the Statement of Net Assets, but not recorded in the governmental funds	(12,715,443)
Long-term contingent liabilities recorded in Statement of Net Assets, but not recorded in the governmental funds	(251,000)
Compensated absences recorded in the Statement of Net Assets, but not recorded in the governmental funds	<u>(2,063,937)</u>
Net assets of governmental activities (Statement of Net Assets)	\$ <u>24,628,185</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds

Exhibit 5

AS OF JUNE 30, 2008

	Major Funds			
	General	TRIMS Capital Project	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Other state funds (Note 14)	\$ 16,389,324	-	-	16,389,324
Federal funds	1,748,686	-	-	1,748,686
Interest income	-	-	49,149	49,149
TOTAL REVENUES	18,138,010	-	49,149	18,187,159
EXPENDITURES:				
Current:				
Personal services and employee benefits	56,572,871	-	-	56,572,871
Contractual services	8,833,196	-	53,961	8,887,157
Other costs	19,791,532	-	-	19,791,532
Capital outlay	1,571,524	-	45,185	1,616,709
TOTAL EXPENDITURES	86,769,123	-	99,146	86,868,269
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(68,631,113)	-	(49,997)	(68,681,110)
OTHER FINANCING SOURCES (USES):				
State general fund appropriations	69,605,500	-	-	69,605,500
Repayments of loans by counties	-	-	-	-
Loans to counties, net adjustments	-	-	-	-
Transfers to other state agencies	-	-	(891,000)	(891,000)
Reversions to state general fund - FY08	(1,658,403)	-	-	(1,658,403)
TOTAL OTHER FINANCING SOURCES (USES)	67,947,097	-	(891,000)	67,056,097
NET CHANGES IN FUND BALANCES	(684,016)	-	(940,997)	(1,625,013)
FUND BALANCES, June 30, 2007, as previously stated	14,855,578	703,030	2,586,401	18,145,009
Prior period adjustment	-	-	47,512	47,512
FUND BALANCES, June 30, 2007, as restated	14,855,578	703,030	2,633,913	18,192,521
FUND BALANCES, June 30, 2008	\$ 14,171,562	703,030	1,692,916	16,567,508

**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**

Exhibit 6

YEAR ENDED JUNE 30, 2008

Net Changes in Fund Balances - Total Governmental Funds		
(Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$	(1,625,013)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital asset additions recorded as expenditures in the governmental funds but capitalized in the Statement of Net Assets		1,616,709
Decreases in capital assets not recorded as expenditures in the governmental funds		(1,375,236)
Depreciation expense recorded in the Statement of Activities but not recorded as expenditures in the governmental funds		(2,980,765)
Adjustments to capital assets included in the notes to the financial statements, but not an expenditure in exhibits		26,181
Capital leases removed from the statements in FY08 but recorded in FY07		448,891
Adjustment to Fund 348 fund balance		47,512
Contingent long-term liabilities		(251,000)
Net change in compensated absences recorded in the Statement of Activities as a liability but not recorded in the governmental funds		438,951
Change in net assets of governmental activities		
(Statement of Activities)	\$	(3,653,770)

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis) -
Operating Fund 172

Exhibit 7 (Page 1 of 6)

YEAR ENDED JUNE 30, 2008

	PROGRAM SUPPORT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
REVENUES:				
State General Fund Appropriations	\$ 20,845,000	21,345,000	21,345,000	-
Other state funds	866,100	835,700	873,159	37,459
Federal funds	-	66,077	44,730	(21,347)
TOTAL REVENUES	21,711,100	22,246,777	\$ 22,262,889	16,112
FUND BALANCE BUDGETED	3,123,711	2,823,711		
TOTAL REVENUES AND FUND BALANCE BUDGETED	\$ 24,834,811	25,070,488		
EXPENDITURES:				
Personal services/employee benefits	\$ 14,633,600	13,890,675	13,620,700	269,975
Contractual services	4,581,311	4,349,844	3,305,661	1,044,183
Other	5,619,900	6,829,969	5,612,027	1,217,942
	\$ 24,834,811	25,070,488	22,538,388	2,532,100

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis) -
Operating Fund 172 - continued

Exhibit 7 (Page 2 of 6)

YEAR ENDED JUNE 30, 2008

	TAX ADMINISTRATION ACT *			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
REVENUES:				
State General Fund Appropriations	\$ 28,659,800	28,659,800	28,659,800	-
Other state funds	665,100	707,600	1,488,262	780,662
Federal funds	<u>1,466,200</u>	<u>1,661,856</u>	<u>1,308,174</u>	<u>(353,682)</u>
TOTAL REVENUES	30,791,100	31,029,256	\$ <u>31,456,236</u>	<u>426,980</u>
FUND BALANCE BUDGETED	<u>42,500</u>	-		
TOTAL REVENUES AND FUND BALANCE BUDGETED	\$ <u>30,833,600</u>	<u>31,029,256</u>		
EXPENDITURES:				
Personal services/employee benefits	\$ 24,492,300	23,609,441	23,190,218	419,223
Contractual services	236,500	600,500	550,870	49,630
Other	<u>6,104,800</u>	<u>6,819,315</u>	<u>6,690,204</u>	<u>129,111</u>
	\$ <u>30,833,600</u>	<u>31,029,256</u>	<u>30,431,292</u>	<u>597,964</u>

* Less Fund 798, presented separately in Exhibit 8

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis) -
Operating Fund 172 - continued

Exhibit 7 (Page 3 of 6)

YEAR ENDED JUNE 30, 2008

MOTOR VEHICLE PROGRAM *

	<u>Budgeted Amounts</u>		<u>Budgetary Basis Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
State General Fund Appropriations	\$ 16,243,700	16,243,700	16,243,700	-
Other state funds	9,826,100	9,565,100	10,538,342	973,242
Federal funds	-	1,019,685	395,783	(623,902)
TOTAL REVENUES	<u>26,069,800</u>	<u>26,828,485</u>	<u>\$ 27,177,825</u>	<u>349,340</u>
FUND BALANCE BUDGETED	<u>1,679,906</u>	<u>2,542,346</u>		
TOTAL REVENUES AND FUND BALANCE BUDGETED	<u>\$ 27,749,706</u>	<u>29,370,831</u>		
EXPENDITURES:				
Personal services/employee benefits	\$ 16,080,724	16,084,745	14,941,007	1,143,738
Contractual services	5,133,982	5,372,201	4,736,210	635,991
Other	<u>6,535,000</u>	<u>7,913,885</u>	<u>6,485,304</u>	<u>1,428,581</u>
	<u>\$ 27,749,706</u>	<u>29,370,831</u>	<u>26,162,521</u>	<u>3,208,310</u>

* Less Fund 994, presented separately in Exhibit 9

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis) -
Operating Fund 172 - continued

Exhibit 7 (Page 4 of 6)

YEAR ENDED JUNE 30, 2008

	PROPERTY TAX PROGRAM			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
REVENUES:				
State General Fund Appropriations	\$ 764,100	764,100	764,100	-
Other state funds	2,475,200	2,475,200	2,595,760	120,560
Federal funds	-	-	-	-
TOTAL REVENUES	<u>3,239,300</u>	<u>3,239,300</u>	\$ <u>3,359,860</u>	<u>120,560</u>
FUND BALANCE BUDGETED	-	<u>120,300</u>		
TOTAL REVENUES AND FUND BALANCE BUDGETED	\$ <u>3,239,300</u>	<u>3,359,600</u>		
EXPENDITURES:				
Personal services/employee benefits	\$ 2,516,800	2,411,800	2,309,681	102,119
Contractual services	126,300	161,300	130,321	30,979
Other	<u>596,200</u>	<u>786,500</u>	<u>605,518</u>	<u>180,982</u>
	\$ <u>3,239,300</u>	<u>3,359,600</u>	<u>3,045,520</u>	<u>314,080</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis) -
Operating Fund 172 - continued

Exhibit 7 (Page 5 of 6)

YEAR ENDED JUNE 30, 2008

COMPLIANCE ENFORCEMENT

	<u>Budgeted Amounts</u>		<u>Budgetary Basis Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
State General Fund Appropriations	\$ 2,592,900	2,592,900	2,592,900	-
Other state funds	-	-	-	-
Federal funds	-	-	-	-
TOTAL REVENUES	2,592,900	2,592,900	\$ <u>2,592,900</u>	<u>-</u>
FUND BALANCE BUDGETED	<u>-</u>	<u>-</u>		
TOTAL REVENUES AND FUND BALANCE BUDGETED	\$ <u>2,592,900</u>	<u>2,592,900</u>		
EXPENDITURES:				
Personal services/employee benefits	\$ 2,124,300	1,827,300	1,767,301	59,999
Contractual services	3,100	109,100	101,255	7,845
Other	<u>465,500</u>	<u>656,500</u>	<u>582,673</u>	<u>73,827</u>
	\$ <u>2,592,900</u>	<u>2,592,900</u>	<u>2,451,229</u>	<u>141,671</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis) -
Operating Fund 172 - continued

Exhibit 7 (Page 6 of 6)

YEAR ENDED JUNE 30, 2008

	TOTAL OPERATING FUND			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
REVENUES:				
State General Fund Appropriations	\$ 69,105,500	69,605,500	69,605,500	-
Other state funds	13,832,500	13,583,600	15,495,523	1,911,923
Federal funds	<u>1,466,200</u>	<u>2,747,618</u>	<u>1,748,687</u>	<u>(998,931)</u>
TOTAL REVENUES	84,404,200	85,936,718	\$ <u>86,849,710</u>	<u>912,992</u>
FUND BALANCE BUDGETED	<u>4,846,117</u>	<u>5,486,357</u>		
TOTAL REVENUES AND FUND BALANCE BUDGETED	\$ <u>89,250,317</u>	<u>91,423,075</u>		
EXPENDITURES:				
Personal services/employee benefits	\$ 59,847,724	57,823,961	55,828,907	1,995,054
Contractual services	10,081,193	10,592,945	8,824,317	1,768,628
Other	<u>19,321,400</u>	<u>23,006,169</u>	<u>19,975,726</u>	<u>3,030,443</u>
	\$ <u>89,250,317</u>	<u>91,423,075</u>	<u>84,628,950</u>	<u>6,794,125</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis) -
Tax Initiatives Fund 798

Exhibit 8

YEAR ENDED JUNE 30, 2008

TAX ADMINISTRATION ACT				Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
REVENUES:				
State General Fund Appropriations	\$ -	-	-	-
Other state funds	-	-	-	-
Federal funds	-	-	-	-
TOTAL REVENUES	-	-	\$ -	-
FUND BALANCE BUDGETED	<u>490,979</u>	<u>490,979</u>		
TOTAL FUND BALANCE BUDGETED	\$ <u>490,979</u>	<u>490,979</u>		
EXPENDITURES:				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	490,979	490,979	487,942	3,037
Other	-	-	-	-
	\$ <u>490,979</u>	<u>490,979</u>	<u>487,942</u>	<u>3,037</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis) -
Tax Identification Fund 994

Exhibit 9

YEAR ENDED JUNE 30, 2008

MOTOR VEHICLE PROGRAM

	<u>Budgeted Amounts</u>		<u>Budgetary Basis Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
State General Fund Appropriations	\$ -	-	-	-
Other state funds	1,005,300	1,005,300	893,801	(111,499)
Federal funds	-	-	-	-
TOTAL REVENUES	<u>1,005,300</u>	<u>1,005,300</u>	<u>\$ 893,801</u>	<u>(111,499)</u>
FUND BALANCE BUDGETED	-	<u>600,000</u>		
TOTAL FUND BALANCE BUDGETED	<u>\$ 1,005,300</u>	<u>1,605,300</u>		
EXPENDITURES:				
Personal services/employee benefits	\$ 656,300	871,300	743,964	127,336
Contractual services	73,000	673,000	600,000	73,000
Other	<u>504,200</u>	<u>527,200</u>	<u>270,485</u>	<u>256,715</u>
	<u>\$ 1,233,500</u>	<u>2,071,500</u>	<u>1,614,449</u>	<u>457,051</u>

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 Revenues and Expenditures - Budget and Actual

Exhibit 10

YEAR ENDED JUNE 30, 2008

	Fund 17200	Fund 79800	Fund 99400	Total General Fund
Total Expenditures (Statement of Revenues, Expenditures and Changes in Fund Balances)	\$ 84,666,732	487,942	1,614,449	86,769,123
Requests to pay prior year bills: FY08 bills paid from FY 09 budget subsequent to the 60-day period of availability per GAAP	(37,782)	-	-	(37,782)
Total Expenditures (Statement of Revenues and Expenditures, Budget and Actual for General Fund - Exhibits 7, 8 and 9)	\$ 84,628,950	487,942	1,614,449	86,731,341

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

Exhibit 11

Statement of Fiduciary Assets and Liabilities

AS OF JUNE 30, 2008

		<u>Agency Funds</u>
ASSETS:		
Cash on deposit with State Treasurer (Note 2)	\$	829,295,289
Cash on hand and in banks (Note 2)		12,768,890
Certificates of deposit held by State Treasurer		-
Receivables:		
Cigarette stamps		-
Counties, municipalities and fee agents		-
Due from state general fund		299,749,817
Due from other state agencies		40,325,653
Due from external parties		985
Due from taxpayers		1,057,541,820
Citations		20,397,699
Tax assessments:		
Allowance for uncollected		697,850,342
Allowance for uncollectibles		<u>(718,974,967)</u>
TOTAL ASSETS	\$	<u>2,238,955,528</u>
LIABILITIES:		
Unidentified tax collections	\$	121,069,707
Due to state general fund		1,157,865,483
Due to counties and municipalities		288,416,509
Due to other state agencies		335,213,857
Due to other funds		796,586
Refunds due to taxpayers		313,393,541
Due to external parties		-
Other liabilities		4,869,845
Reserve for litigated assessments		17,324,000
Funds held in trust for others		<u>6,000</u>
TOTAL ASSETS	\$	<u>2,238,955,528</u>

NATURE OF ORGANIZATION

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

- **Office of the Secretary**

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

- **Information Technology Division**

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

- **Administrative Services Division**

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

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.

1. 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. The GASB has issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. These Statements established 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.

- **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."

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Financial Reporting Entity - continued**

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

- **Government-wide and Fund Financial Statements**

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The Department's program revenues consist of operating grants that are restricted to meeting the operational requirements of a particular function or segment. General fund appropriations and other items not properly included among program revenues are reported instead as general revenues. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the Department's policy to first apply restricted resources.

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 a separate column in the fund financial statements.

- **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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

• **Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued**

The government-wide 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. 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 pursuant to Governmental Accounting Standards Board Statement No. 33 (GASB 33), *Accounting and Financial Reporting for Nonexchange Transactions*, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility 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.

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 a special appropriation for funding a program called *Tax Initiatives*. The purpose of the appropriation is to establish a tax fraud unit, to expand audit and compliance functions and to enhance tax collection efforts. A \$2,300,000 appropriation from the State General Fund to continue the purposes of the program was received and recorded as revenue in

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued** fiscal year 2004 for Department use in fiscal years 2004 through 2008. The General Fund also includes an appropriation for the *Tax Identification 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.

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.

Capital Improvement Projects. This capital project fund accounts for various capital improvement projects.

Additionally, the Department reports the following fund types:

Special Revenue Funds. 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.

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 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 general fund as of June 30, 2008 was \$208 million.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Notes to Financial Statements - continued

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

- **Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued**
Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

- **Cash Deposits and Investment in State Treasurer's 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. The new description is "Investment in the State Treasurer General Fund Investment Pool." 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.

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

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

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

- **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.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **Capital Assets - continued**

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).

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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

• **Long-term Obligations**

The Department currently does not have any long-term obligations.

• **Net Assets or Fund Equity**

Net assets are reported as restricted when external or legal constraints are placed on their use.

Unrestricted net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

In the fund financial statements, governmental funds report reservations of fund balance to indicate that a portion of the fund balance is not available for expenditure or is legally segregated for a specific future use. Designations of fund balance represent tentative plans for subsequent year expenditures that are subject to change.

• **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, Tax Initiatives Fund 79800, and Tax Identification Card Fund 99400). A budget is never prepared for the Property Valuation Fund, a special revenue fund.

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year’s beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentations in these financial statements are consistent with this budgeting methodology. The capital project funds are budgeted using this methodology, which is generally a multi-year budget; therefore, the budget reflected for Fund 885 in Exhibit A-3 on page 60 includes the unexpended portion of the budget as of June 30, 2008.

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.)

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Notes to Financial Statements - continued

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

- **Budgetary Data - continued**

3. Any adjustment to the budget must be submitted to and approved by the State of New Mexico Department of Finance and Administration State Budget Division in the form of a budget adjustment request.
4. Beginning in FY 2006, the annual budget, per the General Appropriations Act, Laws of 2006, Chapter 109, Section 3, Subsections N and O, was adopted on a modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978) must be paid out of the next year's budget. The modified accrual basis of accounting is consistent with generally accepted accounting principles (GAAP). Budgeted revenues may be less than budgeted expenditures as the ending fund balance may, in certain instances, be rebudgeted for expenditures in the next fiscal year. Budgetary comparisons presented in the financial statements are on a modified accrual basis of accounting.

The Department has been designated as a “reverting agency” by the New Mexico state legislature and, therefore, pursuant to the Laws of 2004, Chapter 114, Section 2(E), “unencumbered balances in agency accounts remaining at the end of the fiscal year 2008 shall revert to the [state] general fund by September 30, 2008, 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, 2008 (FY08), but were unpaid by that date. In these circumstances, accounts payable amounts were established in FY08 at fiscal year end. These payments were processed as “Requests to Pay Prior Year Bills” in FY08 and were paid from FY08 budget. The related accounts payable amount for FY08 was included on Exhibit 3, “Balance Sheet – Governmental Funds” and the expenditures are included on Exhibit 5, “Statement of Revenues, Expenditures, and Changes in Fund Balances” since these fund financial statements are prepared using the modified accrual basis of accounting. However, Exhibit 7, “Statement of Revenues and Expenditures – Budget and Actual” is prepared using the budget basis requiring that these accounts payable amounts are not to be included on this financial statement. Therefore, Exhibit 10, “Reconciliation of Expenditures from the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (Exhibit 5 on page 23) to the Statement of Revenues and Expenditures – Budget and Actual” (Exhibit 7 on pages 25 to 30) reconciles these differences.

- **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.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Notes to Financial Statements - continued

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

- **Encumbrances - continued**

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.

The General Appropriation Act of 2004 established that beginning with FY05 (fiscal year ended June 30, 2005), state agencies must use the *Basis of Accounting-Modified Accrual and the Budgetary Basis*. Under this new law, encumbrances related to single year appropriations lapse at fiscal year end. The portion of an encumbrance representing goods and services received by the last day of the fiscal year should be reclassified as accounts payable. Any remaining encumbrances related to single year appropriations must be reclassified as unreserved fund balance and a liability recorded to recognize any amounts subject to reversion.

- **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.

2. **INVESTMENT IN THE STATE TREASURER GENERAL FUND INVESTMENT POOL**

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 (NMSTO), 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 NMSTO. The new description is "Investment in the State Treasurer General Fund Investment Pool."

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 issues separate financial statements which disclose the type of purchased security investments held (i.e. bond, note, Treasury bill, etc.), categories of

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

Notes to Financial Statements - continued

**2. INVESTMENT IN THE STATE TREASURER GENERAL FUND INVESTMENT POOL -
continued**

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, 2008, are entirely insured or collateralized with securities held by the agent in the bank’s name.

As of June 30, 2008, reconciled investment in the State Treasurer’s General Fund Investment Pool was \$853,548,334.

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. Reconciled items in the amount of \$1,906,336 are in transit and on deposit with local banks.

Cash on hand (petty cash and change funds) in the amount of \$18,425 was held at the various Audit and Compliance Division (ACD) district offices and Motor Vehicle Division (MVD) field offices for change funds and small purchases.

Interest rate risk is the risk that interest rate variations may adversely affect an investment's fair value. The prices of securities fluctuate with market interest rates and the securities held in a portfolio will decline if market interest rates rise. The Department does not have an investment policy that limits investment rate risk.

For additional information, the reader should see the separate audit report for the State Treasurer’s Office for the fiscal year ended June 30, 2008.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Notes to Financial Statements - continued

2. INVESTMENT IN THE STATE TREASURER GENERAL FUND INVESTMENT POOL - continued

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

As of June 30, 2008, the Department's cash balances (now called "Investment in the State Treasurer General Fund Investment Pool") have been reconciled to the Department's portion of the Investment in the State Treasurer General Fund Investment Pool. The following reconciles SHARE closing cash balances with the Department's financial statements.

Account Name	Fund Type	DFA SHARE Acct. No.	Bank Balance per State Treasurer	Audit Adjustments not in SHARE	Balance per Financial Statements
Governmental Funds:					
TRIMS Expenditure Fund	Capital	08600 - 333	\$ 703,030	-	703,030
TRD - Operating Fund	Govt'l.	17200 - 333	19,267,097	372,435	19,639,532
Property Valuation Fund	S R	34800 - 333	1,149,717	-	1,149,717
Tax Initiatives	Govt'l.	79800 - 333	10,281	-	10,281
Capital Improvement Project	Capital	88500 - 333	185,965	-	185,965
Weight Distance Tax Admin Fee	Govt'l.	99400 - 333	<u>2,134,205</u>	<u>-</u>	<u>2,134,205</u>
Total Governmental Funds			23,450,295	372,435	23,822,730
Fiduciary Funds:					
TRD Restitution Fund	Fiduciary	23600 - 333	974	-	974
Oil & Gas - Ad Valorem Equip. Tax	Fiduciary	23900 - 333	158,776	-	158,776
CIT (TAA) Suspense	Fiduciary	27900 - 333	82,131,001	-	82,131,001
PIT (TAA) Suspense	Fiduciary	64200 - 333	45,563,266	-	45,563,266
Hazmat Finger Printing Fees	Fiduciary	68000 - 333	20,416	-	20,416
Small Cities Assistance	Fiduciary	68400 - 333	3,561,299	-	3,561,299
County & Municipal Cigarette	Fiduciary	68300 - 333	7,859	-	7,859
Local Liquor Tax Fund	Fiduciary	70900 - 333	166,998	-	166,998
Motor Transportation Cash Bond	Fiduciary	70600 - 333	84,000	-	84,000
Unclaimed Property Suspense	Fiduciary	71000 - 333	11,427,025	-	11,427,025
Oil & Gas - Ad Valorem Prod. Tax	Fiduciary	71300 - 333	828,477	-	828,477
Ad Valorem Equipment Tax	Fiduciary	71500 - 333	1,044	-	1,044
Income Tax Suspense	Fiduciary	81900 - 333	10,733,735	-	10,733,735
Transportation & MVD Suspense	Fiduciary	82500 - 333	12,630,588	-	12,630,588
T.A.A. Suspense	Fiduciary	82800 - 333	66,874,869	-	66,874,869
Delinquency List Suspense	Fiduciary	83000 - 333	4,297,780	-	4,297,780
Worker's Compensation Fund	Fiduciary	83100 - 333	1,348,082	-	1,348,082
CRS TAA Suspense - TRIMS	Fiduciary	83200 - 333	295,885,243	-	295,885,243
Oil & Gas Accounting Suspense	Fiduciary	83300 - 333	<u>293,573,857</u>	<u>-</u>	<u>293,573,857</u>
Total Fiduciary Funds			<u>829,295,289</u>	<u>-</u>	<u>829,295,289</u>
Total Investment in the State Treasurer Investment Pool			\$ <u>852,745,584</u>	<u>372,435</u>	<u>853,118,019</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Notes to Financial Statements - continued

2. INVESTMENT IN THE STATE TREASURER GENERAL FUND INVESTMENT POOL - continued

Cash in Banks

As of June 30, 2008, reconciled motor vehicle field office cash in banks (checking accounts) totaled \$1,910,440, as follows:

Name of Depository	Account Name	Balance per Financial Statements	Bank Balance
Farmers & Stockmens Bank	Motor Vehicles Division	\$ 24,911	55,440
Farmers & Stockmens Bank	Motor Transportation Department	3,106	6,070
Western Bank	Motor Vehicles Division	28,881	53,015
Western Bank	Motor Transportation Department	36,016	70,287
First National Bank	Taxation & Revenue Department	5,928	9,534
Wells Fargo Bank	Taxation & Revenue Department	<u>1,811,598</u>	<u>3,622,430</u>
Total cash per financial statements		1,910,440	3,816,776
Deposits in transit from agents		10,858,450	10,858,450
Outstanding checks and adjustments		<u>-</u>	<u>(1,906,336)</u>
Total cash in banks		\$ <u>12,768,890</u>	<u>12,768,890</u>

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.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Notes to Financial Statements - continued

3. RECEIVABLES

As of June 30, 2008, the Department's receivables, including the applicable allowances for uncollectable accounts, are as follows:

	Governmental Funds			Fiduciary Funds
	General	Capital Project	Special Revenue	Agency
Receivables:				
Accounts receivable	\$ 19,053	-	-	1,396,891,349
Cigarette Stamps	-	-	-	-
County Property Valuation Loans	-	-	596,105	-
Federal Grants	467,212	-	-	-
Property Tax	-	-	-	726,926
Citations	-	-	-	20,397,699
Tax Assessments	-	-	-	<u>697,850,342</u>
Gross receivables	486,265	-	596,105	2,115,866,316
Less allowance for uncollected amounts	-	-	-	(718,974,967)
Less allowance for uncollectible amounts	<u>(15,167)</u>	<u>-</u>	<u>(240,000)</u>	<u>-</u>
Total receivables, net	<u>\$ 471,098</u>	<u>-</u>	<u>356,105</u>	<u>1,396,891,349</u>

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

Accounts Receivable

Receivables are recorded in connection with database access fee revenues. An allowance of \$15,166 has been recorded for accounts where collection cannot be assured.

Cigarette Stamps

The cigarette stamps account represents receivables resulting from the sale of cigarette stamps, which are recorded when the stamps are issued to the purchaser. All account balances are considered collectible.

County Property Valuation Loans

The loans to counties account represents loans made to counties 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.

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

Notes to Financial Statements - continued

3. RECEIVABLES - continued

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.

Receivables - Fiduciary Funds Tax Assessments

At June 30, 2008, tax assessments issued and uncollected by the Fiduciary Fund Type were as follows:

Compensating and Withholding Taxes	\$ 395,501,979
Corporate Income Tax	107,328,313
Personal Income Tax	116,356,791
Gasoline Tax	30,650,175
Combined Fuel Tax	2,584,836
Cigarette Tax	4,751,925
Daily Bed Surcharge	4,223
Estate Tax	97,734
Fiduciary Income Tax	1,507,165
Liquor Excise Tax	48,465
Petroleum Products Loading Fee	5,501,937
Special Fuel Supplier	24,995,037
Telecommunications Relay Surcharge	13,270
Tobacco Products	2,329,006
Water Conservation Fees	19,032
Enhanced 911 Tax	1,688,495
Alternative Fuel Distributors	1,188
Restitution	802,259
Railroad Car Tax	5,465
Gaming	6,533
Unclaimed Property	35,375
Workers' Compensation Tax	442,898
Oil and Gas Tax Programs:	
ONGARD Oil and Gas (OGT)	<u>3,178,241</u>
Total receivables, fiduciary funds tax assessments	\$ <u>697,850,342</u>

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

Notes to Financial Statements - continued

3. RECEIVABLES - continued

• **Receivables – Fiduciary Funds Tax Assessments - continued**

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 yearend from information report to the Department within the accrual period.

Approximately \$140,151,750 of the active tax assessments issued by the Department and listed above are under protest and/or subject to litigation.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance June 30, 2008</u>
Governmental activities:					
Capital assets being depreciated:					
Furniture and fixtures	\$ 1,218,760	-	(28,926)	-	1,189,834
Software	12,712,235	1,122,439	-	-	13,834,674
Data processing equipment	5,472,213	436,568	(1,757,331)	38,656	4,190,106
Machinery and equipment	5,270,286	57,702	(1,911,248)	52,698	3,469,438
Tenant leasehold improvements	217,762	-	-	-	217,762
Vehicles	<u>189,243</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>189,243</u>
Total capital assets being depreciated	25,080,499	1,616,709	(3,697,505)	91,354	23,091,057
Less accumulated depreciation for:					
Furniture and fixtures	(489,641)	(169,976)	13,501	-	(646,116)
Software	(4,504,368)	(1,682,997)	-	-	(6,187,365)
Data processing equipment	(3,490,852)	(707,937)	1,208,229	(12,476)	(3,003,036)
Machinery and equipment	(3,286,264)	(372,103)	1,100,539	(52,697)	(2,610,525)
Tenant leasehold improvements	(96,695)	(14,517)	-	-	(111,212)
Vehicles	<u>(123,954)</u>	<u>(33,235)</u>	<u>-</u>	<u>-</u>	<u>(157,189)</u>
Total accumulated depreciation	<u>(11,991,774)</u>	<u>(2,980,765)</u>	<u>2,322,269</u>	<u>(65,173)</u>	<u>(12,715,443)</u>
Capital assets, net	\$ <u>13,088,725</u>	<u>(1,364,056)</u>	<u>(1,375,236)</u>	<u>26,181</u>	<u>10,375,614</u>

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

Notes to Financial Statements - continued

4. CAPITAL ASSETS - continued

Depreciation expense of \$2,980,765 was charged to the following programs:

Program Support	\$	2,328,324
Tax Administration Act		366,564
Motor Vehicle Program		277,307
Property Tax Program		3,412
Compliance Enforcement		<u>5,158</u>
	\$	<u>2,980,765</u>

Capital asset activity included \$1,616,709 of capital outlay acquisitions, primarily for purchases of data processing equipment and software.

Net adjustments of \$26,181 reflect the amount of capital assets added back to the capital asset inventory that had been inadvertently removed from the list in prior years.

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

5. 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, 2008 comprised of the following balances:

Fund	Fund Description	Interfund Receivable	Interfund Payable
Operating Funds:			
17200	General Fund – Operations	\$ 788,314	16,978
79800	Tax Initiatives	9,092	-
99400	Tax Identification Fund	<u>47,585</u>	<u>31,574</u>
Total Operating Funds		844,991	48,552
Fiduciary Funds:			
27900	CIT TAA Suspense Fund	-	126
64200	PIT TAA Suspense Fund	-	2,060
82500	Transportation & MVD Suspense	<u>-</u>	<u>794,253</u>
Total Due Operating Funds		-	796,439

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Notes to Financial Statements - continued

5. INTER/INTRA FUND RECEIVABLES AND PAYABLES - continued

Fund	Fund Description	Interfund Receivable	Interfund Payable
Fiduciary Funds – continued:			
68100	County & Municipal Gasoline	\$ 5,468,638	-
68200	County & Municipal Gasoline	130,315	-
68300	County & Municipal Recreation	259,665	-
68400	County & Municipal Cigarette	1,605,560	-
70600	Motor Transportation Cash Bond	-	-
70900	Local Liquor Excise Tax	-	-
71000	Unclaimed Property Suspense	-	-
71300	Oil & Gas Ad Valorem Prod. Tax	53,186,507	-
81900	Income Tax Suspense (TRIMS) Fund	-	-
82800	TAA Suspense Fund	-	5,858,618
83200	CRS (TAA) Suspense	-	1,605,560
83300	CRS (TAA) Suspense	-	<u>53,186,507</u>
Total Fiduciary Funds		<u>60,650,685</u>	<u>60,650,685</u>
Total Interfund Balances		\$ <u>61,495,676</u>	<u>61,495,676</u>

6. 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 in the elimination column on Schedule 1 represent the transfers made during the fiscal year. Since the transfers are between the tax programs within the fund (column), the following amounts are eliminated for combining purposes to avoid any duplication of account balances:

Additions:

Personal Income Tax Suspense	\$ 300,616,748
TAA Suspense / Other	31,603,614
Oil and Gas	<u>117,548,496</u>

Total \$ 449,768,858

Deductions:

CRS Suspense	\$ 300,616,748
TAA Suspense / Other	31,603,614
Oil and Gas	<u>117,548,496</u>

Total \$ 449,768,858

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Notes to Financial Statements - continued

7. LEASES

• **Operating Leases**

The Department leases facilities and equipment under numerous operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Department's Statement of Net Assets. Leases are subject to future appropriation and are cancelable by the Department at the end of each fiscal year. For the year ended June 30, 2008, facilities rental expenditures were \$2,967,852.14.

8. LIABILITIES

• **Current Liabilities**

The Department's General Fund total current liabilities during the fiscal year were \$13,204,414. Approximately 43% of the current liabilities are attributable to accounts payable and accrued payroll. The General Fund accounts payable of \$3,555,676 consists of goods or services received by the Department by June 30, 2007 but paid after June 30, 2007. The General Fund accrued payroll of \$2,045,755 consists of payroll expenditures incurred from June 16, 2007 through June 30, 2007 but paid after June 30, 2007.

• **Compensated Absences**

Compensated absences for the year ended June 30, 2008 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated absences payable	\$ 2,502,888	3,796,666	4,235,617	2,063,937	2,063,937
Total long-term liabilities	\$ 2,502,888	3,796,666	4,235,617	2,063,937	2,063,937

For the Statement of Activities, change in compensated absences included as expenditures is allocated to the programs using a payroll allocation percentage.

• **Long Term Obligations**

The Department incurred settlement costs of \$151,000 to be paid within the next three years. The Department has recorded the long term liability and expenditure in the Statement of Net Assets and Statement of Net Activities. In addition, the Department has estimated a potential loss of approximately \$100,000 regarding a pending case in which it has been estimated that there is a 75% chance of an unfavorable outcome. The Department had recorded the pending settlement as a long term liability and expenditure in the Statement of Net Assets and Statement of Net Activities.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Notes to Financial Statements - continued

9. 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, 2008 were as follows:

Reversions:

Beginning balance at FY 08	\$ 2,725,779
Reversions:	
BFY 08 expenditure reversions	1,251,892
BFY 08 revenue reversions	<u>405,122</u>
Subtotal	4,382,793
Less payments made	(2,652,155)
Additional amount due from BFY 07	-
Less FY 07 reversion duplicated	<u>(13,544)</u>
Total due to State General Fund at June 30, 2008	\$ <u>1,717,094</u>
Reversions reconciliation:	
BFY 08 expenditure reversions	\$ 1,251,892
BFY 08 revenue reversions	<u>405,122</u>
Subtotal	1,657,014
FY 08 reversion due State Land Office	14,933
Less FY 07 duplicate reversion adjustment	<u>(13,544)</u>
Total FY 08 reversion expenditure	\$ <u>1,658,403</u>

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

Notes to Financial Statements - continued

10. RESTRICTED NET ASSETS AND FUND BALANCE

Restricted Net Assets and Unreserved-designated Fund Balance was created to restrict the use of resources from special appropriations and to restrict cash balance amounts that have been re-budgeted in subsequent years by the Department.

Fund/Program	Laws	Amount
General Fund:		
Oil & Natural Gas Database	Laws of 2008, Chapter 28, Section 7, \$500,000 through FY10	\$ 401,253
DB2 System	Laws of 2008, Chapter 3, Section 7, \$300,000 through FY10	300,000
MVD Imaging Equipment	Laws of 2008, Chapter 3, Section 7, \$1,000,000 through FY10	1,000,000
Equipment for Centralized Driver's Licenses, Titles and Registrations	Laws of 2007, Chapter 28, Section 7, Item 12; \$1,500,000 extended through FY 08	17,066
Computer Network & Security Deficiencies	Laws of 2007, Chapter 28, Section 7, Item 6; \$2,000,000 extended through FY 08	<u>1,361,477</u>
Total General Fund:		3,079,796
Capital Improvements Projects Fund 88500:		
Gas Tax Automation System - Road Fund	Laws of 2004, Chapter 126, Section 42; \$1,100,000 through FY 09	120,714
TRD Tax Policy Project	Laws of 2007, Chapter 42, Section 73	46,039
Capital Appropriation for RPD Equipment	Laws of 2006, Chapter 111, Section 58; \$845,000 through FY 09	<u>14,011</u>
Total Capital Improvements Projects Fund 88500		<u>180,764</u>
Total Fund Balance - Reserved for Special Appropriations		\$ <u>3,260,560</u>
Fund Balance - Reserved:		
General Fund:		
Financial Responsibility Act	NMSA 1978, Section 66-5-201 and 66-6-23A(5)(e)	\$ 3,116,293
EDL - Enhanced Driver's License	NMSA 1978, Section 66-5-44, C	1,920,102
Delinquent Property Tax	NMSA 1978, Section 7-38-62	1,537,013
PIT Intercept Administration Fees	NMSA 1978, Section 7-2C-12	393,089
License Plates	NMSA 1978, Section 66-3-405 through 424.21	76,191
Interlock	NMSA 1978, Section 66-5-44, B	383,487
Tax Identification Card Fund 99400	NMSA 1978, 7-15A-14	<u>2,129,637</u>
Total General Fund Balance - Reserved for Subsequent Years' Expenditures		9,555,812
TRIMS Capital Project Fund 08600	Laws of 1999, Chapter 10, Section I, Subsection D	703,030
Property Valuation Fund 34800 (Loans to Counties)	NMSA 1978, 7-35-3(B)	<u>1,512,152</u>
Total Fund Balance - Reserved		\$ <u>11,770,994</u>

11. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

• **Plan Description**

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

• **Funding Policy**

Plan members are required to contribute 7.42% of their gross salary. The Department's is required to contribute 16.59% 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, 2008, 2007 and 2006 were \$6,406,683, \$5,842,540 and \$5,297,401, respectively, equal to the amount of the required contribution for each year.

12. 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 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.

12. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN - continued

• **Plan Description - continued**

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

• **Funding Policy**

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The Department's contributions to the RHCA for the years ended June 30, 2008, 2007 and 2006 were \$490,499, \$452,492 and \$411,366, respectively, which equal the required contributions for each year.

13. 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.

14. 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, 2008, 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 approximately \$140,151,750 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.

The Department incurred costs of \$251,000 in a legal settlement to be paid within the next three years. The Department has recorded the long-term liability and expenditure in the Statement of Net Assets and Statement of Net Activities.

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.

15. JOINT POWERS AGREEMENTS

• **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). The current JPA names the Department as the agency responsible for daily operations of the ONGARD Service Center. The current JPA became effective January 14, 2004, and will remain in effect until it is replaced with a new JPA or is otherwise terminated by the signatories.

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

Notes to Financial Statements - continued

15. JOINT POWERS AGREEMENTS - continued

• **ONGARD Service Center - continued**

The level of funding for the ONGARD Service Center is established annually in the General Appropriations Act. Special appropriations are also made to the Legislature to fund specific projects at the ONGARD Service Center. For the fiscal year ending June 30, 2008, the General Appropriations Act provides \$1,431,900, of which \$960,600 comes from the State General Fund and \$471,300 of which is transferred from the State Land Office and recorded as Other State Funds.

The appropriations to support the ONGARD Service Center and the expenditures of those funds are part of Program Support (P572) and are included in the Department's General Fund. The Department is the fiscal agent for and has audit responsibility for the ONGARD Service Center.

16. PRIOR PERIOD ADJUSTMENT

The following prior period adjustment was recorded as of June 30, 2008:

<u>SHARE Fund No.</u>	<u>Fund Title</u>	<u>Amount</u>	<u>Purpose</u>
34800	Property Valuation Fund	\$ 47,512	To correct an allowance for doubtful accounts related to a loan to a county.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Notes to Financial Statements - continued

17. REVENUES

General fund revenue reported for the year ended June 30, 2008, consisted of the following:

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Other State Funds:			
Delinquent Property Tax	\$ 2,595,500	-	2,595,500
Workers Comp Assessment	637,727	-	637,727
Alcoholic Beverage Tax	49,115	-	49,115
Unclaimed Property	315,400	-	315,400
Motor Vehicle - Special Plates	53,785	-	53,785
Temporary Permits	357,039	-	357,039
Enhanced Drivers License (EDL)	1,861,261	-	1,861,261
Parental Responsibilities	82,025	-	82,025
Provisional License	227,404	-	227,404
Hazmat Fingerprinting	134,235	-	134,235
Financial Responsibilities	3,356,832	-	3,356,832
Motorcycle Registration Fee	2,418	-	2,418
Out of State DWI Verification Interlock	383,487	-	383,487
Weight Distance Tax Administrative Fees	1,360,001	-	1,360,001
Motor Vehicle Admin Fees	2,881,792	-	2,881,792
Other State Appropriation	247,700	-	247,700
State Land Office Transfers	517,100	-	517,100
PIT Intercept Admin Fees	122,054	-	122,054
Misc. Revenue - Program	<u>1,204,449</u>	<u>-</u>	<u>1,204,449</u>
Total Other State Funds	16,389,324	-	16,389,324
Other Financing Sources:			
Interest Income	<u>-</u>	<u>49,149</u>	<u>49,149</u>
Total Other Financing Sources	-	49,149	49,149
General Fund:			
State General Fund Appropriations	69,605,500	-	69,605,500
Transfers to other state agencies	<u>-</u>	<u>(891,000)</u>	<u>(891,000)</u>
Total General Fund	<u>69,605,500</u>	<u>(891,000)</u>	<u>68,714,500</u>
Total State Funds	85,994,824	(841,851)	85,152,973
Federal Funds	<u>1,748,686</u>	<u>-</u>	<u>1,748,686</u>
Total Revenues - GAAP	\$ <u>87,743,510</u>	<u>(841,851)</u>	<u>86,901,659</u>

SUPPLEMENTARY INFORMATION

NON-MAJOR FUNDS

- **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.

- **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 provided funding for various capital improvement projects.

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

Statement A-1

**Combining Balance Sheet -
Non-major Governmental Funds**

AS OF JUNE 30, 2008

	Property Valuation Fund (34800)	Capital Improvement Projects Fund (88500)	Total Non-major Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS:			
Investment in the State Treasurer General Fund			
Investment Pool	\$ 1,149,716	185,965	1,335,681
Receivables:			
Due from other state agencies	6,331	-	6,331
Loans to counties, net (Note 3)	<u>356,105</u>	<u>-</u>	<u>356,105</u>
TOTAL ASSETS	\$ <u>1,512,152</u>	<u>185,965</u>	<u>1,698,117</u>
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts payable	\$ -	5,201	5,201
Other liabilities	-	-	-
Due to other state agencies	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	-	5,201	5,201
FUND BALANCES:			
Reserved for MVD offices renovation	-	180,764	180,764
Reserved for loans to counties	<u>1,512,152</u>	<u>-</u>	<u>1,512,152</u>
TOTAL FUND BALANCES	<u>1,512,152</u>	<u>180,764</u>	<u>1,692,916</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>1,512,152</u>	<u>185,965</u>	<u>1,698,117</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Combining Statement of Revenues, Expenditures and Changes
in Fund Balance - Non-major Governmental Funds

Statement A-2

AS OF JUNE 30, 2008

	Property Valuation Fund (34800)	Capital Improvement Projects Fund (88500)	Total Non-major Governmental Funds
REVENUES:			
Interest income	\$ 49,149	-	49,149
TOTAL REVENUES	49,149	-	49,149
EXPENDITURES:			
Current expenditures:			
Contractual services	-	53,961	53,961
Operating costs	-	-	-
Capital outlay	-	45,185	45,185
TOTAL EXPENDITURES	-	99,146	99,146
EXCESS OF REVENUES OVER EXPENDITURES	49,149	(99,146)	(49,997)
OTHER FINANCING SOURCES (USES):			
Transfers to other state agencies	-	(891,000)	(891,000)
NET OTHER FINANCING SOURCES (USES)	-	(891,000)	(891,000)
NET CHANGES IN FUND BALANCES	49,149	(990,146)	(940,997)
FUND BALANCE, JUNE 30, 2007, as previously stated	1,415,491	1,170,910	2,586,401
PRIOR PERIOD ADJUSTMENT	47,512	-	47,512
FUND BALANCE, JUNE 30, 2007, as restated	1,463,003	1,170,910	2,633,913
FUND BALANCE, JUNE 30, 2008	\$ 1,512,152	180,764	1,692,916

See Independent Auditors' Report.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Statement of Revenues and Expenditures - Non-major Funds -
Budget and Actual (Non-GAAP Basis)

STATEMENT A-3

YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Budgetary Basis Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
State General Fund Appropriations	\$ -	-	-	-
TOTAL REVENUES	-	-	-	-
PRIOR YEAR CASH BUDGETED	<u>1,170,909</u>	<u>1,170,909</u>		
	\$ <u>1,170,909</u>	<u>1,170,909</u>		
EXPENDITURES - current and capital outlay:				
Other	\$ 279,909	279,909	99,146	180,763
Other financing uses	<u>891,000</u>	<u>891,000</u>	<u>891,000</u>	-
TOTAL EXPENDITURES	\$ <u>1,170,909</u>	<u>1,170,909</u>	<u>990,146</u>	<u>180,763</u>

FIDUCIARY FUND TYPES

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

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

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

FIDUCIARY FUND TYPES - continued

- 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 Credit Act
- Leased Vehicle Gross Receipts Tax Act

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

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

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 and withholding taxes.
- 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 and 71000) – 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.

Statement B-1

AS OF JUNE 30, 2008

	<u>CRS Suspense</u>	<u>Personal Income Tax Funds</u>	<u>Collection Corporate Income Tax</u>
ASSETS:			
State General Fund Investment Pool at the State Treasurer's Office	\$ 295,885,243	56,297,975	82,131,001
Cash on hand and in banks	-	-	-
Certificates of deposit held by State Treasurer	-	-	-
Receivables:			
Cigarette stamps	-	-	-
Counties, municipalities and fee agents	-	-	-
Due from state general fund	62,450,152	80,369,363	108,002,562
Due from other state agencies	1,240,043	-	-
Due from external parties	-	-	-
Due from taxpayers	518,905,507	77,598,326	81,265,015
Due from Intra-fund programs	-	-	-
Citations	-	-	-
Tax assessments	395,501,979	117,159,044	107,328,313
Allowance for uncollected	(395,501,979)	(117,159,044)	(107,328,313)
Allowance for uncollectibles	-	-	-
TOTAL ASSETS	\$ <u>878,480,945</u>	<u>214,265,664</u>	<u>271,398,578</u>
LIABILITIES:			
Unidentified tax collections	\$ 19,925,695	3,055,393	34,886,361
Due to state general fund	554,762,538	138,209,024	160,784,028
Due to counties and municipalities	228,586,873	-	-
Due to other state agencies	11,137,264	-	-
Due to other funds	-	2,050	-
Refunds due to taxpayers	62,450,152	72,991,092	75,728,189
Due to external parties	-	-	-
Due to Intra-fund programs	1,605,561	-	-
Other liabilities	12,862	8,105	-
Reserve for Litigated Assessments	-	-	-
Funds held in trust for others	-	-	-
TOTAL LIABILITIES	\$ <u>878,480,945</u>	<u>214,265,664</u>	<u>271,398,578</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Combining Statement of Fiduciary Assets and Liabilities -
Fiduciary Fund Type - Agency Funds

Funds			Non-Collection	Eliminations	Total
TAA Suspense/ Other	Motor Vehicle	Oil and Gas	Other Funds		
76,256,887	12,651,004	294,562,154	11,511,025	-	829,295,289
-	12,768,890	-	-	-	12,768,890
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4,226,755	1,378,525	43,322,460	-	-	299,749,817
-	6,425	39,079,185	-	-	40,325,653
985	-	-	-	-	985
52,400,853	18,761,452	308,610,667	-	-	1,057,541,820
7,464,178	-	53,186,507	-	(60,650,685)	-
-	20,397,699	-	-	-	20,397,699
74,647,388	-	3,178,242	35,376	-	697,850,342
(75,374,314)	(20,397,699)	(3,178,242)	(35,376)	-	(718,974,967)
-	-	-	-	-	-
<u>139,622,732</u>	<u>45,566,296</u>	<u>738,760,973</u>	<u>11,511,025</u>	<u>(60,650,685)</u>	<u>2,238,955,528</u>
30,850,505	939,808	31,333,945	78,000	-	121,069,707
34,893,819	11,585,562	246,203,487	11,427,025	-	1,157,865,483
6,643,129	-	53,186,507	-	-	288,416,509
53,367,517	29,102,945	241,606,131	-	-	335,213,857
-	794,536	-	-	-	796,586
6,318,197	-	95,905,911	-	-	313,393,541
-	-	-	-	-	-
5,858,617	-	53,186,507	-	(60,650,685)	-
1,690,948	3,143,445	14,485	-	-	4,869,845
-	-	17,324,000	-	-	17,324,000
-	-	-	6,000	-	6,000
<u>139,622,732</u>	<u>45,566,296</u>	<u>738,760,973</u>	<u>11,511,025</u>	<u>(60,650,685)</u>	<u>2,238,955,528</u>

SUPPLEMENTAL SCHEDULES

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Schedule 1

Supplemental Schedule of Special Appropriations

YEAR ENDED JUNE 30, 2008

Special Appropriation	Amount Appropriated	Amount Received to Date	Expenditures to Date	Unencumbered Balance	Amount Reverted
General Fund:					
Special appropriation to Taxation & Revenue Department for MVD Reengineering, Laws of 2006, Chapter 109, Section 7, Subsection (4) through FY08	\$ 750,000	750,000	684,945	65,055	65,055
Special appropriation to Taxation & Revenue Department to enhance tax collection efforts, Laws of 2007, 46th Legislature, 2nd session, Section 5, Subsection (13) through FY08	2,300,000	2,300,000	2,280,627	19,373	19,373
Special appropriation to Taxation & Revenue Department to revise motor vehicle agent agreements, Laws of 2004, 46th Legislature, 2nd Session, Section 5, Subsection (15) through FY08	230,000	230,000	191,152	38,848	38,848
Special appropriation to Taxation & Revenue Department, ASD and MVD interlock system, Laws of 2007, Chapter 317, Section 4 through FY08	1,100,000	1,100,000	694,658	405,342	405,342
Special appropriation to Taxation & Revenue Department to revise the traffic citation process, Laws of 2004, 46th Legislature, 2nd Session, through FY08	381,200	381,000	381,000	-	-
Special appropriation to Taxation & Revenue Department to acquire equipment for centralized drivers license system, Laws of 2006, Chapter 109, Section 5, Subsection (13) through FY09	1,500,000	1,500,000	1,482,935	17,065	-
Special appropriation to Taxation & Revenue Department for Gen-Tax taxpayer access point system, Laws of 2006, Chapter 109, Section 7, Subsection (3) through FY08	1,000,000	1,000,000	1,000,000	-	-
Special appropriation to Taxation & Revenue Department to address computer network and security deficiencies, Laws of 2006, Chapter 109, Section 7, Subsection (4) through FY10	2,000,000	2,000,000	638,523	1,361,477	-
Special appropriation to Taxation & Revenue Department to replenish Oil and Natural Gas Database, Laws of 2007, Chapter 28, Section 7 & Laws of 2008, Chapter 3, Section 7, through FY10	500,000	500,000	98,747	401,253	-
Special appropriation to Taxation & Revenue Department to convert integrated database system to DB2, Laws of 2008, Chapter 3, Section 7, Subsection (4) through FY10	300,000	300,000	-	300,000	-
Special appropriation to Taxation & Revenue Department to replace imaging equipment, kiosks and eye testing machines, Laws of 2008, Chapter 3, Section 7, Section (5) through FY10	<u>1,000,000</u>	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>	<u>-</u>
General Fund Total	11,061,200	11,061,000	7,452,587	3,608,413	528,618
Capital Improvement Projects fund:					
Special appropriation through FY09	<u>2,845,000</u>	<u>2,845,000</u>	<u>2,664,238</u>	<u>180,762</u>	<u>-</u>
Total Special Appropriations	\$ <u>13,906,200</u>	<u>13,906,000</u>	<u>10,116,825</u>	<u>3,789,175</u>	<u>528,618</u>

See Independent Auditors' Report.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Schedule 2

Supplemental Schedule of Inter-Agency Transfers

YEAR ENDED JUNE 30, 2008

Account Transferred to:	Cash Account Transferred to	Account Transferred from:	Reason for Transfer	Cash Account Transferred from	Net Amount
Department of Finance & Administration /Board of Finance:					
State Debt	80000-341	AD Valorem Production	1	71300-333	\$ 8,338,590
State Debt	80000-341	Copper Production	1	71400-333	162,713
State Debt	80000-341	AD Valorem Equipment Tax	1	71500-333	1,402,387
Children, Youth and Families Department					
CYFD-Children's Trust Fund	78000-690	Transportation and MVD Suspense	1	82500-333	21,849
Department of Cultural Affairs:					
OCA Capital Projects/Laws of 1992	69100-505	TAA Suspense Fund	1	83200-333	317,906
Department of Education:					
Education Department/Driving Safety Fees	57300-924	Transportation and MVD Suspense	1	82500-333	1,462,166
Department of Finance and Administration:					
E911 Income Account	01700-341	TAA Suspense Fund	1	82800-333	13,283,279
County Supported Medicaid Fund	02100-341	CRS TAA Suspense Fund	1	83200-333	19,793,019
UNM Cancer Center	23300-341	TAA Suspense Fund	1	82800-333	800,951
Judicial Education Fund - General	58900-341	Transportation and MVD Suspense	1	82500-333	302,224
Small Counties Assistance	73700-341	CRS TAA Suspense Fund	1	83200-333	1,042,498
Local DWI Grant Program	56000-341	TAA Suspense Fund	1	82800-333	18,512,498
DFA Appropriations	85300-341	CIT TAA Suspense Fund	1	27900-333	286,466,287
DFA Appropriations	85300-341	Personal Income Tax Suspense	1	64200-333	692,172,482
DFA Appropriations	85300-341	Small Cities Assistance	1	68400-333	6,908,438
DFA Appropriations	85300-341	Unclaimed Property Suspense	1	71000-333	11,427,024
DFA Appropriations	85300-341	Transportation and MVD Suspense	1	82500-333	134,991,439
DFA Appropriations	85300-341	TAA Suspense Fund	1	82800-333	137,463,757
DFA Appropriations	85300-341	CRS TAA Suspense Fund	1	83200-333	2,621,677,790
DFA Appropriations	85300-341	Oil & Gas Suspense	1	83300-333	613,323,751
Energy, Minerals & Natural Resources Department:					
EMNRD - Operating Fund	19900-521	Transportation and MVD Suspense	1	82500-333	425,867
Motor Boat Fuel Tax	30900-521	TAA Suspense Fund	1	82800-333	207,240
Oil Reclamation Fund	31100-521	Oil & Gas Suspense	1	83300-333	5,430,909
NM Youth Conservation Corps	32900-521	CRS TAA Suspense Fund	1	83200-333	3,079,632
EMNRD Capital Projects/1994	64600-521	CRS TAA Suspense Fund	1	83200-333	4,535,330
Boat Suspense Fund	77300-521	Transportation and MVD Suspense	1	82500-333	652,046
Department of Game & Fish:					
Wild Life Plates	30700-516	Transportation and MVD Suspense	1	82500-333	1,930
Department of Health:					
Brain Injury Services Fund	47600-665	Transportation and MVD Suspense	1	82500-333	789,020
Tourism Department					
Special Revenues/Beautification	26200-418	Transportation and MVD Suspense	1	82500-333	1,565,314
Environment Department:					
Tire Recycling Fund	02600-667	Transportation and MVD Suspense	1	82500-333	908,929
Water Conservation Fund	56700-667	TAA Suspense Fund	1	82800-333	2,143,371
Ground Water Corrective Action Fund	99000-667	TAA Suspense Fund	1	82800-333	21,043,144
Department of Transportation:					
Highway Dept Regular - State Road Fund	20001-805	Transportation and MVD Suspense	1	82500-333	175,012,264
Highway Dept Regular - State Road Fund	20001-805	TAA Suspense Fund	1	82800-333	116,335,919
Highway Infrastructure Funds	20200-805	Transportation and MVD Suspense	1	82500-333	1,781,656
Highway Infrastructure Funds	20200-805	CRS TAA Suspense Fund	1	83200-333	7,772,161
Local Governments Road Fund	20300-805	Transportation and MVD Suspense	1	82500-333	1,438,316
Local Governments Road Fund	20300-805	TAA Suspense Fund	1	82800-333	11,074,476
Local Governments Road Fund	20300-805	CRS TAA Suspense Fund	1	83200-333	1,449,545
Aircraft Registration Fee	20500-805	TAA Suspense Fund	1	82800-333	414,050
Aircraft Registration Fee	20500-805	CRS TAA Suspense Fund	1	83200-333	977,658
Motorcycle Training Fund	20600-805	Transportation and MVD Suspense	1	82500-333	280,236
DWI Prevention & Education Fund	20700-805	Transportation and MVD Suspense	1	82500-333	331,047
Traffic Safety Education & Enforcement Fund	20800-805	Transportation and MVD Suspense	1	82500-333	472,902
New Mexico Administrative Office of the Courts:					
Correction Fees	68800-218	Transportation and MVD Suspense	1	82500-333	2,645,680
Court Automation Fund	07800-218	Transportation and MVD Suspense	1	82500-333	1,576,540
Court Facilities	53200-218	Transportation and MVD Suspense	1	82500-333	1,701,208

Transfer Purpose: 1 - Transfer beneficiary's funds from fiduciary fund as provided by New Mexico Statutes

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Schedule 2 - continued

Supplemental Schedule of Inter-Agency Transfers - continued

YEAR ENDED JUNE 30, 2008

<u>Account Transferred to:</u>	<u>Cash Account Transferred to</u>	<u>Account Transferred from:</u>	<u>Reason for Transfer</u>	<u>Cash Account Transferred from</u>	<u>Net Amount</u>
New Mexico Retiree Health:					
Investment Account	83500-343	CRS TAA Suspense Fund	1	83200-333	\$ 14,214,248
Public Employees Retirement Association:					
PERA - Administration	60600-366	PIT TAA Suspense Fund	1	64200-333	2,400,000
State Land Office					
Ongard /Oil & Gas Royalty	26400-539	Oil & Gas Suspense	1	83300-333	941,452
Office of the State Treasurer:					
Severance Tax Bonding	41000-394	Oil & Gas Suspense	1	83300-333	565,425,614
Department of Veterans' Services					
New Mexico Veterans Service Commission	78400-670	Transportation and MVD Suspense	1	82500-333	41,336
Workers Compensation Administration:					
Workers' Compensation Fund	98200-632	Workers' Compensation Fund	1	83100-333	<u>11,573,368</u>
					<u>\$ 5,528,513,456</u>

Transfer Purpose: 1 - Transfer beneficiary's funds from fiduciary fund as provided by New Mexico Statutes

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Schedule 3

Supplemental Schedule of Changes in Fiduciary Assets and Liabilities

YEAR ENDED JUNE 30, 2008

	Balance July 1, 2007	Additions	Deductions	Balance, June 30, 2008
ASSETS:				
Cash on deposit with State Treasurer	\$ 740,622,851	7,642,031,835	7,553,359,397	829,295,289
Cash on hand and in banks	100,622	35,529,326	22,861,058	12,768,890
Certificates of deposit held by State Treasurer		-	-	-
Receivables:		-	-	-
Counties, municipalities and fee agents		-	-	-
Due from state general fund	89,048,997	213,880,258	3,179,438	299,749,817
Due from other state agencies	38,958,772	7,232,916	5,866,035	40,325,653
Due from external parties	3,394,678	-	3,393,693	985
Due from taxpayers	768,291,184	1,090,762,351	801,511,715	1,057,541,820
Citations	18,365,833	22,010,124	19,978,258	20,397,699
Tax assessments:	616,313,022	87,672,012	6,134,692	697,850,342
Allowance for uncollected	(635,474,767)	(88,936,561)	(5,436,361)	(718,974,967)
Allowance for uncollectibles	-	-	-	-
TOTAL ASSETS	\$ 1,639,621,192	9,010,182,261	8,410,847,925	2,238,955,528
LIABILITIES:				
Unidentified tax collections	\$ 42,470,396	97,828,973	19,229,662	121,069,707
Due to state general fund	913,328,577	1,589,415,105	1,344,878,199	1,157,865,483
Due to counties and municipalities	285,739,833	288,490,108	285,813,432	288,416,509
Due to other state agencies	206,628,073	558,788,818	430,203,034	335,213,857
Due to other funds	4,063,796	1,460,292	4,727,502	796,586
Refunds due to taxpayers	143,798,437	169,605,269	10,165	313,393,541
Due to external parties	6,673,997	-	6,673,997	-
Other liabilities	26,436	82,070,601	77,227,192	4,869,845
Reserve for litigated assessments	36,823,647	11,190,360	30,690,007	17,324,000
Funds held in trust for others	68,000	6,000	68,000	6,000
TOTAL LIABILITIES	\$ 1,639,621,192	2,798,855,526	2,199,521,190	2,238,955,528

SINGLE AUDIT

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Schedule 4

Schedule of Expenditures of Federal Awards

YEAR ENDED JUNE 30, 2008

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Pass-Through Identifying Number	Federal Participating Expenditures
U.S. Department of Interior:			
Audits of Oil and Gas Leases	15.427		\$ <u>1,130,894</u>
Total U.S. Department of Interior			1,130,894
U.S. Department of Transportation:			
CDL Project and Administration	20.232		360,668
Border States Enforcement Grant	20.218		176,442
Prism Project	20.218		25,887
Federal/State Motor Fuel Tax Compliance Grant	20.240		<u>10,065</u>
Subtotal USDOT Direct Programs			573,062
Pass-Through Programs from:			
New Mexico Department of Transportation - Highway Traffic Safety Funds	20.605	07-AL-64-P06	<u>44,730</u>
Subtotal USDOT Pass-Through Programs			<u>44,730</u>
Total U.S. Department of Transportation			<u>617,792</u>
Total Expenditures of Federal Awards			\$ <u><u>1,748,686</u></u>

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

Notes to Schedule of Expenditures of Federal Awards

- **General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the State of New Mexico Taxation and Revenue Department (Department).

- **Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Department's governmental fund financial statements.

- **Reporting Entity**

For purposes of the supplementary schedule of expenditures of federal awards, the Department includes all of the funds of the Department as defined by GASB 14, The Financial Reporting Entity. The financial statements of the Department are intended to present the financial position and results of operations of only that portion of the funds of the State of New Mexico which are attributable to the transactions of the Department. Likewise, the schedule of expenditures of federal awards includes only that portion of federal awards expended by the Department.

The Department did not receive any Federal non-cash assistance in fiscal year 2008.

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

Honorable Bill Richardson, Governor
Honorable Hector H. Balderas, State Auditor
Mr. Rick Homans, Cabinet Secretary
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund of the State of New Mexico, Taxation and Revenue Department (Department), as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements. We have also audited the financial statements of each of the Department's nonmajor governmental and fiduciary funds and the budgetary comparisons of the nonmajor governmental funds as presented as supplementary information, as of and for the year ended June 30, 2008 and have issued our report thereon dated January 29, 2009. We have also audited Schedules 1 through 3, as listed in the table of contents and included in the financial statements as supplementary information as of and for the year ended June 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph, and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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A **control deficiency** 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 misstatements on a timely basis. A **significant deficiency** is a control deficiency, or a combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as items 2006-09, 2007-01, 2007-04, 2007-06, 2007-07, 2008-01, 2008-02, 2008-03 and 2008-04.

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as item 2006-09, 2007-04, 2007-06, 2008-03 and 2008-04.

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

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

Meyers + Company, LLC

January 29, 2009

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Bill Richardson, Governor
Honorable Hector H. Balderas, State Auditor
Mr. Rick Homans, Cabinet Secretary
Santa Fe, New Mexico

Compliance

We have audited the compliance of the State of New Mexico Taxation and Revenue Department (Department), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination on the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal awards for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2008-03.

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Santa Fe, New Mexico

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purposes of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Department's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A **control deficiency** in the Department's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A **significant deficiency** is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-03 to be a significant deficiency.

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Department's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

This report is intended solely for the information and use of management of the Department, the New Mexico State Legislature, the New Mexico State Auditor, the New Mexico Department of Finance and Administration, and the federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Meyners + Company, LLC

January 29, 2009

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

Schedule of Findings and Questioned Costs

YEAR ENDED JUNE 30, 2008

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of opinion issued – Unqualified

Internal Control Over Financial Reporting:

- Material weaknesses identified - None
- Nine (9) significant deficiencies identified that are not considered to be material weaknesses
- Noncompliance material to the financial statements noted - None

Federal Awards

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

Internal Control Over Major Programs:

- Material weaknesses identified - None
- One (1) significant deficiency identified that is not considered to be material weaknesses but required to be reported in accordance with section 510(a) of OMB Circular A-133.
- Noncompliance material to major programs – None

Programs tested as major programs include:

- CFDA No. 15.427 – U.S. Department of Interior, Mineral Management Services, Audits of Oil and Gas Leases
- CFDA No. 20.232 – U.S. Department of Transportation, CDL Project and Administration

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

Auditee qualified as a low-risk auditee – No

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2006-09 PROFESSIONAL SERVICES CONTRACTS - PAYMENTS MADE AFTER TERMINATION DATE

Condition: In two out of ten (10) professional services contracts tested, we noted that the New Mexico Taxation and Revenue Department: (Department) made payments to the contractor subsequent to the termination date of their respective contracts. One contract terminated on October 31, 2007 and the invoice was dated November 16, 2008. The other contract terminated on December 31, 2007 and the invoice was dated February 15, 2008.

Criteria: All contracts for professional services with state agencies shall be reviewed as to form, legal sufficiency and budget requirements established by the New Mexico Department of Finance and Administration (2.40.2 NMAC).

Cause: Although services were rendered by the contractor prior to the termination date of the contract, the invoices were dated after the termination date and beyond the fifteen day period allowed for by the contract agreement. The Department still made to make payment the contractors.

Effect: The Department did not comply with specific compensation requirements as stated in the professional services agreement.

Recommendation: We recommend that the Department adhere to the compensation terms and conditions as specified in the professional service agreements entered into with contractors or amend the contract to extend the termination date of the contract.

Department's Response: The Department's professional service contracts do state that all invoices must be received by the procuring agency no later than fifteen (15) days after the termination of the contract. The Financial Services Bureau will notify project managers of the upcoming termination of their contracts two months prior to the expiration of the contract and will notify them that all outstanding invoices must be received by the Department no later than 15 days after the termination of the contract.

2007-01 PERPETUAL INVENTORY RECORDS NOT MAINTAINED

Condition: During our physical observation of supplies inventory, we noted that 15% (nine of sixty items tested) of the physical count of supplies on hand did not agree to the perpetual inventory records of the New Mexico Taxation and Revenue Department (Department). Although the Department adjusted their perpetual inventory records to agree to the physical count of supplies inventory on hand at June 30, 2008, it appears that the Department did not maintain its perpetual inventory records accurately throughout the fiscal year.

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-01 PERPETUAL INVENTORY RECORDS NOT MAINTAINED - continued

Criteria: Effective internal controls for safeguarding assets against loss, theft, or misuse include ensuring that inventory quantities reported on the perpetual inventory records are accurate.

Cause: It is the Department's policy to perform physical counts of inventory on hand twice a year and adjust the applicable inventory listings at mid-year and fiscal year end.

Effect: Inventory items may be lost, stolen, or misused if the perpetual inventory records are not maintained.

Recommendation: We recommend that the Department conduct physical inventory counts during the fiscal year on a quarterly basis to identify variances in their perpetual inventory records. These variances should be analyzed and corrected in a timely manner to prevent inventory loss, theft, or misuse.

Department's Response: The General Services Bureau was short staffed and a physical inventory was not taken mid-year. The warehouse manager during this time, conducted inventory of random items on a weekly basis and verified that count against the electronic inventory. In addition, training the staff on unit of measure on similar items, lack of labeling on packaging and conversion of units when entering into automated system contributed to the discrepancies.

Being fully staffed, the following corrective actions will be re-implemented.

TRD will continue its policy of performing physical counts on inventory mid-year and at the end of the fiscal year. Staff will test a ten percent of random selection of the inventory items on a monthly basis. Conversion units and pricing will be verified and reconciled after entered into perpetual inventory system. Item issuance reports will be generated and reviewed on a weekly basis to identify problems and to take immediate corrective action.

2007-04 FINANCIAL AUDIT REPORT NOT FILED BY DUE DATE

Condition: The financial audit report for the State of New Mexico Taxation and Revenue Department (Department) for the fiscal year ended June 30, 2008 was not filed by the regulated due date of December 15, 2008. The fieldwork for the financial audit report for the fiscal year ended June 30, 2008 was completed on January 29, 2009.

Criteria: NMAC 2.2.2.9.A(1)(f) establishes December 15 as the due date for the financial and compliance audit report for a state agency to be submitted to the New Mexico State Auditor.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-04 FINANCIAL AUDIT REPORT NOT FILED BY DUE DATE - continued

Cause: The financial audit report for the Department for the fiscal year ended June 30, 2007 was not completed until December 16, 2008 (date of exit conference) and the report expressed a qualified opinion on the financial statements of the Department. Additional audit procedures were performed to substantiate beginning balances.

Effect: The Department is in noncompliance with regulatory financial reporting requirements.

Recommendation: We recommend that the Department comply with regulatory financial reporting requirements.

Department's Response: The majority of audit exceptions in the FY07 audit have been resolved by Department staff, as well as an unqualified opinion on the FY08 financial statements. The Department does not foresee any issues relating to the FY07 audit impacting future audit timeliness.

2007-06 PERSONAL INCOME TAX (PIT) REFUNDS RECONCILIATIONS BETWEEN GENTAX AND SHARE

Condition: Personal Income Tax (PIT) refunds are paid to taxpayers either by ACH (Automated Clearing House) credit or by issuing warrants, using the State of New Mexico Taxation and Revenue Department's (Department) tax revenue processing system GenTax. According to Department personnel, the Department had hoped that SHARE would have an automated interface with GenTax which would upload PIT refund transactions from GenTax to SHARE on a daily basis. However, the automatic uploading function did not work as planned; rather, the transactions were entered in SHARE manually by the Department of Finance and Administration (DFA) using the GenTax daily transaction information transmitted by the Department. The PIT refunds were not reconciled between GenTax and SHARE during the year.

Criteria: Per DFA's Manual of Model Accounting Practices, NMAC 2.20.5.8.C(2), the Chief Financial Officer of each state agency is responsible to ensure that all transactions are recorded daily in the agencies' accounting records. Also, as authorized by Section 6-5-2.1 (A-B) and (E), NMSA 1978 and NMAC 2.20.5.8.C(7), the Manual of Accounting Practices FIN 13, External Systems, D.2. requires that state agencies reconcile the total of financial transactions recorded from their subsidiary system through to the interface point within SHARE.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-06 PERSONAL INCOME TAX (PIT) REFUNDS RECONCILIATIONS BETWEEN GENTAX AND SHARE - continued

Cause: The interface function between the general ledger of the Department, SHARE and the subsidiary system GenTax is not working as expected. There was no mechanism in place which would ensure timely and accurate uploading of GenTax transactions into SHARE.

Effect: The Department is in violation of Section 6-5-2.1 (A-B, (E), NMSA 1978 and NMAC 2.20.5.8C(7), which authorized DFA's Manual of Model Accounting Practices.

Recommendation: We recommend the Department continue to work with the New Mexico State Treasurer's Office and DFA to ensure that the interface between GenTax and SHARE works properly.

Department's Response: Department staff has worked extensively on reconciling the outstanding warrants between Gentax and the SHARE system. Financial Distribution staff is working with the Gentax IT staff to load warrant status from both SHARE and TWARS into GenTax. Once all information regarding current warrant status is uploaded into GenTax and outstanding warrants have been verified, TRD will work with the State Treasurer's Office, the State Fiscal Agent and DFA to implement a process to stale date warrants in GenTax and SHARE.

2007-07 CAPITAL ASSET DISPOSITIONS NOT REPORTED TO STATE AUDITOR

Condition: The New Mexico Taxation and Revenue Department (Department) did not notify the Office of the State Auditor of disposals of capital assets prior to disposing of the property. The Department did not notify the Office of the State Auditor until November 3, 2008 for capital assets disposed through June 30, 2008.

Criteria: Section 13-6-1 and 13-6-2 NMSA 1978, govern the disposition of obsolete, worn-out or unusable tangible personal property owned by state agencies, local public bodies, school districts and state education institutions. At least thirty (30) days prior to any such disposition of property, written notification of the official finding and proposed disposition duly sworn and subscribed under oath approving the action must be sent to the Office of the State Auditor.

Cause: The Department inadvertently failed to notify the Office of the State Auditor prior to disposing of capital assets.

Effect: The Department is in violation of Sections 13-6-1 and 13-6-2 NMSA 1978.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

**2007-07 CAPITAL ASSET DISPOSITIONS NOT REPORTED TO STATE AUDITOR
- continued**

Recommendation: We recommend that the Department notify the Office of the State Auditor of any dispositions of capital assets 30 days before disposal.

Department's Response: The Department updated the Capital Asset Control Policy to reflect the disposition pre-requisites referenced in the Sale of Public Property Statutes. 13-6-1 (B) NMSA 1978 and State Auditor Rule at NMAC 2.2.2.10 V which requires advance 30 day notification of proposed disposition of property to the Office of the State Auditor. Divisions, TRD's Capital Assets Coordinator, and Capital Assets Disposition Committee were notified of the pre-requisite disposition requirements and the procedures to be followed prior to disposing of capital assets.

The Divisions are required to notify the Capital Assets Coordinator of proposed disposition of property at least 60 days prior to the proposed disposition. The Capital Assets Coordinator will notify in writing, the Capital Assets Disposition Committee of the Division's proposed disposition. The Capital Assets Disposition Committee will approve and oversee the disposition. The Capital Assets Coordinator will give written notification to the Office of the State Auditor at least thirty days prior to making the deletion by sending a copy of its official finding and the proposed disposition to the State Auditor.

2008-01 CAPITAL ASSET RECORDS NOT ADEQUATELY MAINTAINED

Condition: The Department had been deleting capital assets from the listing at the earlier of 5 years or once fully depreciated. Additionally, temporary tag numbers were provided to IT to allow them to move the assets into service more quickly. As a consequence, temporary tag numbers were not updated to reflect the permanent tag numbers on the Department's capital asset records.

Criteria: Generally accepted accounting principles (GAAP) require capital assets that are not fully depreciated or still in use to be recorded as a capital asset of the Department. Also, capital assets must be properly tagged, and tag numbers and serial numbers should be recorded into the capital asset listing when the asset is placed in service.

Cause: There was no independent review by Finance Bureau personnel of the changes made to capital assets records during the fiscal year.

Effect: Capital assets records may be misstated if not adequately maintained and updated.

Recommendation: We recommend that the Department assign an employee who is independent of maintaining capital asset records to verify that additions, deletions and tagging of inventory has been properly recorded on a monthly basis.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2008-01 CAPITAL ASSET RECORDS NOT ADEQUATELY MAINTAINED - continued

Department's Response: The Financial Services Bureau has determined that because of the limited number of acquisitions and deletions within a fiscal year a monthly review is not warranted; however, the Capital Assets and Federal Grants Supervisor will verify the additions, deletions and tagging of inventory has been properly recorded on a quarterly basis. In the absence of the Capital Assets and Federal Grants Supervisor, the Financial Services Bureau Chief will perform the quarterly review.

2008-02 INFORMATION TECHNOLOGY (IT) INTERNAL CONTROL DEFICIENCIES

Condition: A general control and application review of the IT environment for the GenTax, Motor Vehicle (MVD) and Ongard (Oil and Gas) tax information systems of the State of New Mexico Taxation and Revenue Department (Department) was made. These information environments appear to be well designed with knowledgeable staff operating them. However, the following internal control deficiencies were noted:

1. Logical Access - System administrative access to the database is not restricted to the TRD database manager and administrators.
2. User Access Review – Periodic user access review by management is not performed.
3. Data Restore Testing – Periodic data restore testing is not performed.
4. For MVD – Issue/change tracking is performed manually. For other applications, the current helpdesk system is not capable of establishing service level agreements (SLA) between the IT Department and the user community.
5. Network Account Lockout and Password Configuration – Network account access is not protected by the Account Lockout Policy. The account lockout threshold is not enabled to automatically shut down an account if too many incorrect username and password combinations are attempted. Also, the domain password policy settings do not require the users to change their password after a set period of time, and there are no complexity requirements enabled for passwords (i.e. special characters or numeral in the password).
6. Security Event Log Monitoring – System generated security event logs are not actively or routinely reviewed by a dedicated IT staff member.

Criteria: IT environments should be operating with sufficient effectiveness to achieve specific control objectives.

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

**2008-02 INFORMATION TECHNOLOGY (IT) INTERNAL CONTROL DEFICIENCIES
- continued**

Cause: TRD has experienced turnover in its Chief Information Officer's position, resulting in continued enhancements of its IT environment.

Effect: Logical Access - Unrestricted use of administrative accounts may result in inappropriate activity remaining undetected. The integrity and reliability of critical financial data may be jeopardized if access is not appropriately restricted. Unauthorized changes made to the production environment can impact data integrity and system reliability.

User Access Review - The integrity and reliability of critical financial data may be jeopardized if system access is not regularly reviewed for appropriateness.

Data Restore Testing - Management may not be aware of ineffective backup media without regular testing of the backup media/data.

MVD/Other Applications – Incidents, problems and errors may go unresolved if not managed effectively. This may adversely impact system availability, data integrity and the overall confidence in the systems. Management cannot have reasonable assurance that IT operations are effective without an adequate managing and monitoring system in place.

Network Account Lockout and Password Configuration – Given enough time and potential to try multiple username and password combinations, an attacker might eventually succeed in compromising the security of the network, a server or other computer.

Security Event Log Monitoring – Currently, logs are reviewed only after an event has become a known problem, or a compromise has occurred.

Recommendation: We recommend the following:

Logical Access - Restrict administrative access to the Department database manager and administrators. If absolutely required, access to other individuals should be provided on an "as needed" basis and ensure that proper monitoring of activities is in place.

User Access Review – Perform a user access review for all in-scope systems and applications at least on an annual basis. This will provide assurance that appropriate access is provided to the user community to be able to perform their functions and to protect the integrity and reliability of the financial data.

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

**2008-02 INFORMATION TECHNOLOGY (IT) INTERNAL CONTROL DEFICIENCIES
- continued**

Recommendation - continued: Data Restore Testing - Perform restore testing at a minimum on an annual basis. This will provide assurance that the backup media/data are usable and reliable in any unforeseen events.

MVD/Other Applications – Implement a more robust help desk (issue/change) monitoring system that will allow the establishment of the IT Department’s SLAs.

Network Account Lockout and Password Configuration – Enable the Account Lockout Policy in the Domain Security Settings. Without an account lockout setting, network authenticated access can be achieved by an attacker through means of a brute force attack (attackers can run a script at a logon screen which tries endless password combinations until access is achieved). If the account were locked after five failed attempts, this would prevent the success of a brute force attack. We also recommend the Department enable maximum password age parameter, requiring users to change their password every 90 days, per information security standards and best practice recommendations. Enable the password complexity requirements parameter so that passwords must contain special characters and/or numeric characters, avoiding use of easily guessable common passwords. Without complexity as part of a password, users are free to use commonly used words as passwords (i.e., their pet’s name, spouse’s name, etc.). As an example, “rover” is much easier to guess than “!RoV3r”.

Security Event Log Monitoring – Management should commit the resources, internally or externally, to the proactive review of system generated security event logs. A proactive and scheduled review provides time and opportunity to detect and respond to potential threats before they result in a compromise.

Department’s Response: Logical Access – TRD agrees with this recommendation and has already addressed this issue. Administrative access is now restricted appropriately to the TRD infrastructure manager (and one backup) and database manager.

User Access Review – TRD agrees with this recommendation, and will start annual reviews of all users for all in-scope systems and applications. ITD had already started reviews of Mainframe MVD users. Also all Data Warehouse users (not covered in this audit scope) have been reviewed on a quarterly basis since over one year ago.

Data Restore Testing – TRD agrees with this recommendation, and will we have been testing restore capabilities of individual files on an as needed basis (most recent occurrence about six weeks ago) we will start to perform full restore testing of backup media/data for all critical systems on an annual basis. This will start after our purchase of additional SAN storage space is completed and operational.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

**2008-02 INFORMATION TECHNOLOGY (IT) INTERNAL CONTROL DEFICIENCIES
- continued**

Department's Response - continued: MVD/Other Applications – TRD agrees with this recommendation, to implement a more robust help desk (issue/change) monitoring system. We have recently implemented the HelpSTAR system. This system is now operational, although we need to purchase additional licenses and implement additional configuration changes to further improve its capabilities (e.g. escalation procedures). TRD plans to continue expansion and implementation of additional features, budget permitting.

Network Account Lockout and Password Configuration – TRD agrees with this recommendation. TRD has implemented the Account Lockout Policy in the Domain Security Settings. TRD has also implemented maximum password age parameter, requiring users to change their password every 90 days; as well as password complexity requirements parameter, so that passwords must contain special characters and/or numeric characters, avoiding use of easily guessable comment passwords has been implemented.

Security Event Log Monitoring – TRD agrees with this recommendation, however budget and resource constraints prohibit us from implementing these monitoring activities at this time. Currently the Department of Information Technology (DoIT) monitors the MARS box – which monitors all Internet traffic for malicious content (all Internet traffic goes through DoIT before reaching TRD). TRD has requested expansion positions for FY10 including dedicated security staff, among whose duties would be monitoring of security logs. If a dedicated security FTE is approved, these activities will commence.

2008-04 TAX DISTRIBUTIONS NOT MADE TIMELY

Condition: In testing tax distributions, we noted that distributions were not timely for the workers compensation penalty and interest to the State General Fund as required by state statute (NMSA 7-1-6.1). The tax distributions for workers compensation were not made monthly during the fiscal year ended June 30, 2008. As of June 30, 2008, TRD had not remitted the amount due to the State General Fund of \$881,272.

Criteria: Per NMSA 7-1-6.1, “After the necessary disbursements have been made from the tax administration suspense fund, the money remaining, except for remittances received with the previous sixty days that are unidentified as to source or disposition, in the suspense fund as of the last day of the month shall be identified by tax source and distributed or transferred in accordance with the applicable provisions of the Tax Administration Act [7-1-1 NMSA 1978]. After the necessary distributions and transfers, any balance shall be distributed to the general fund.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2008-04 TAX DISTRIBUTIONS NOT MADE TIMELY - continued

Cause: In October of 2007, TRD changed their distribution processes for the workers compensation program from information obtained in SHARE to information in GENTAX. After this transition, TRD did not timely transfer distributions to the general fund on a monthly basis.

Effect: TRD is not in compliance with statutory distribution requirements.

Recommendation: We recommend that TRD distribute taxes collected in accordance with statutory requirements.

Department's Response: The Department agrees that the distribution was not made timely to the General Fund; however, the amounts are correctly reflected in the financial statements as due to the General Fund. The distribution has been processed to DFA and future distributions will be made monthly as required.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT

Schedule of Findings and Questioned Costs - continued

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM
AUDIT**

2008-03 INDIRECT COST RATE PROPOSAL NOT SUBMITTED

CFDA No. 15.427 - Audits of Oil and Gas Leases (Mineral Management Services Grant)

Questioned Costs: None.

Condition: The Department could not provide evidence that an indirect cost rate proposal (ICRP) was submitted for the Mineral Management Service Grant for the fiscal year ended June 30, 2008. The ICRP provides the documentation to substantiate the Department's request for the establishment of an indirect cost rate. The indirect costs include: (1) costs originating in the Department used to carry out the federal award, and 2) costs of central services provided by the Department that are not otherwise treated as direct costs.

Criteria: OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Government, Attachment E, Paragraph 1.D.2. states that an (ICRP must be submitted within six (6) months after the close of the governmental unit's fiscal year.

Cause: TRD has experienced turnover in the Finance Bureau and inadvertently failed to submit the ICRP.

Effect: Non-compliance with OMB Circular A-87 requirements could result in loss of federal funding.

Recommendation: We recommend that the Department submit the ICRP for fiscal year ended June 30, 2008.

Department's Response:

TRD agrees that the certification was not submitted by the previous Financial Services Bureau Chief as required. The current year's indirect rate certification was processed on March 26, 2008. To ensure the indirect rate certification is processed timely, this item has been added to the yearly calendar of activities so that future certifications are submitted timely.

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

Summary Schedule of Prior Year Audit Findings

- 2003-1 Combined Reporting System (CRS) – Gentax System – Resolved
- 2005-2 Cash Disbursements – Resolved
- 2005-4 Inaccurate Interest Calculation and Collections on Loans to Counties (Property Valuation Fund) – Resolved
- 2006-2 MVD - Discrepancies Between Amounts Deposited with Bank and Actual Cash Received – Resolved
- 2006-3 MVD – Inadequate Internal Controls at Field Offices – Resolved
- 2006-7 Underpayment Penalties Not Assessed for Estimated Tax Payments – Resolved
- 2006-8 Inadequate Internal Control Over Film Production Credit Refunds – Resolved
- 2006-9 Professional Services Contracts – Repeated and modified
- 2007-1 Perpetual Inventory Records Not Maintained – Repeated and modified
- 2007-2 MVD: Late Deposit of Public Money – Resolved
- 2007-3 MVD: Late Reports and Payments from Dealers and Fee Agents – Resolved
- 2007-4 Late Financial Audit Report – Repeated and modified
- 2007-5 Untimely Reversion – Resolved
- 2007-6 Personal Income Tax (PIT) Refunds Reconciliations between GenTax and SHARE – Repeated and modified
- 2007-7 Capital Asset Disposition not Reported to State Auditor – Repeated and modified
- 2007-8 Accounting Errors – Resolved
- 2007-9 Reporting Errors During Preparation of Financial Statements – Resolved
- FA-2007-1 Late Data Collection Form Submission – Resolved

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

Exit Conference

An exit conference was held with the State of New Mexico Taxation and Revenue Department (Department) on January 29, 2009. The conference was held at the State Capital in Santa Fe, New Mexico. In attendance were:

FOR THE DEPARTMENT:

Rick Homans, Cabinet Secretary
Wanda Helms, CPA, Director, Administrative Services Division
Dorothy Lynch, Deputy Director, Administrative Services Division
Frank Shaffer, CPA, Financial Distribution Bureau Chief
Bersabe Rodriguez, Financial Services Bureau Chief

FOR MEYNNERS + COMPANY, LLC

Georgie Ortiz, CPA, CGFM, Assurance Principal
Jo Ann Chavez, CPA, Assurance In Charge

ABSENT

Janet Pacheco-Morton, CPA, CGFM, Assurance Senior Manager