



**FINANCIAL STATEMENTS
AND INDEPENDENT
AUDITORS' REPORT**

JUNE 30, 2010

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

Official Roster

Year Ended June 30, 2010

<u>Name</u>	<u>Title</u>
Dorothy Rodriguez	Cabinet Secretary Designate
Marilyn Hill	Deputy Secretary
Division Directors:	
Wanda Helms	Administrative Services Division
Phil Salazar	Audit and Compliance Division
Marilyn Hill	Revenue Processing Division
Rick Silva	Property Tax Division
Michael Sandoval	Motor Vehicle Division
Joel Matek	Information Services Division
Alvan Romero	Tax Fraud Investigations Division

Independent Auditors' Report

Dorothy Rodriguez, Cabinet Secretary Designate
Honorable Bill Richardson, Governor
Hector H. Balderas, New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information and the 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, 2010, 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 including the budgetary comparison for the nonmajor governmental funds as presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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

Dorothy Rodriguez, Cabinet Secretary Designate
Honorable Bill Richardson, Governor
Hector H. Balderas, New Mexico State Auditor

financial position of the entire State of New Mexico as of June 30, 2010, 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.

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, 2010, 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, 2010, 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 December 13, 2010, 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 5 through 18 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.

Dorothy Rodriguez, Cabinet Secretary Designate
Honorable Bill Richardson, Governor
Hector H. Balderas, New Mexico State Auditor

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements, the combining and individual fund financial statements and budgetary comparisons of the Department. The accompanying schedule of expenditures of federal awards 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. Also, the accompanying schedules listed as supplemental schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has 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.

Mess Adams LLP

Albuquerque, New Mexico
December 13, 2010

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010**

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

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

Financial Highlights

The assets of the New Mexico Taxation and Revenue Department exceeded its liabilities at the close of the most recent fiscal year by \$24,954,642 (net assets).

The governmental net assets decreased by \$518,037.

The total cost of all Department programs was \$91,128,513.

Department Highlights

FY 2010 TRD Collections and Distributions

Net Collections: TRD collected a total of \$6.5 billion in FY 2010. Combined reporting system taxes (gross receipts, withholding and compensating taxes) were the single largest category of collections at \$4.1 billion, or 63% of total collections. Mineral extraction taxes were next at \$928 million or 14%. Income taxes were \$664 million or 10%. Motor vehicle taxes and fees were \$316 million or 5% and other state funds were \$498 million or 8%.

Net Distributions: TRD distributed a total of \$7 billion in FY 2010. \$3.4 billion, or 49%, was distributed to the State General Fund. \$1.6 billion, or 23%, was distributed to local governments. \$285 million, or 4%, was distributed to the New Mexico Department of Transportation. \$1.7 Billion, or 24%, was distributed to other state funds.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010**

Revenue Enhancement Efforts

The Department continued its initiative to enhance tax collection efforts in fiscal year 2010 (FY10). Due to budget cuts and the state of the economy, original projected results were not achieved for FY10. Total collections and denied refunds and credits totaled \$205.4M in FY10, compared to a total of \$218.4M in FY09. Although the total results were down from the previous fiscal year, results were much higher than revised expectations.

For FY11, legislation passed in the 2010 session requires the Department to implement an Amnesty Program, which will also have an effect on revenue enhancement efforts. Audit and collection staff are being pulled from their regular audit and compliance duties to help with amnesty agreement processing and assessing. Normal collection revenues will be reduced, while additional revenue will be generated from amnesty payments. The net effect will not be known until sometime in 2011.

Additional budget cuts for FY11 will also limit the number of staff available to produce revenue enhancement results. The division continues to lose about 2.5 full time employees each month from attrition for a variety of reasons. Reduced staff will continue to limit the division's ability to meet expectations.

Compliance Enforcement Program

The Tax Fraud Investigations Division (TFID) was created in late fiscal year 2003. In FY10, there were ten criminal prosecution cases referred to the district attorney's offices and/or the Attorney General's Office. From FY03 through the end of FY10, TFID has successfully prosecuted forty-three tax fraud cases resulting in a 100% successful prosecution rate.

During FY10, the TFID Internal Audit Bureau completed nineteen Internal Audits; thirteen were performed for the Motor Vehicle Division (MVD), one for the Audit and Compliance Division (ACD), one for the Revenue Processing Division (RPD), one for the Information Technology Division (ITD), two audits were agency wide and one for the Department of Workforce Solutions (WFS). The divisions concurred with the recommendations of the internal audits 100% of the time.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010**

During FY10, the Internal Investigations Bureau received thirty referrals and completed thirty-four Internal Investigations. The thirty-four completed Internal Investigations involved the following entities:

<u>Number of Investigations in FY 10</u>	<u>Division/Department</u>
16	Motor Vehicle Division
7	Foreign National Driver’s Licenses
3	Audit and Compliance Division
3	Taxation and Revenue Department (counterfeit checks)
2	Department of Workforce Solutions
2	Information Technology Division
<u>1</u>	Office of the Secretary
<u>34</u>	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 involving Department employees.

GenTax and E-Filing

Progress continued on the goal to enhance GenTax, the integrated tax system for the Department, with 27 tax programs now housed in the GenTax system. The GenTax project team has several large projects completed, planned or being implemented. Successful FY10 project implementations included: implementation of the GenTax Collections and Bankruptcy upgrade project; implementation of the first phase of the new Fed/State XML enabled application to begin positioning the state for e-file modernization federal compliance; implementation of a new reconciliation process for RPD GenTax payments; implementation of the reconciliation of multiple years of B Warrants with DFA; ongoing implementation of Fiscal Agent Transition Project (Bank of America to Wells Fargo); implementation of all PIT and CIT aging warrants and sending to unclaimed property; re-engineering of Weight Distance suspension process (ROI based); implementation of TAP compliance project; first phase of implementation of mandatory e-filing for CRS and Weight Distance; complete re-work of 1099s; implementation of Tax Year 2009 and legislative changes as they relate to PIT, CIT, PTE, and FID tax returns; beginning of implementation of changes to Cigarette and CFT returns in preparation for e-filing functionality in FY11; and the implementation of new processes for Tax Fraud Tracking.

The GenTax project team has both new and existing projects being implemented in FY11. Some of these are: Implementation of phase two of the new Fed/State XML application; continuation of the aging warrant process in GenTax; continuation of the

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010**

Fiscal Agent transition project; continuation of the mandatory e-filing project for CRS and Weight Distance; Weight Distance Zero Filer Automation project; GL File Automation project for PIT and CIT issued and cancelled warrants; Completion of Annual Tax Year Rollout Mapping and Documentation project; and planning for future FY11 projects for upgrades to the Refund module and Taxpayer Offset Program in GenTax.

The GenTax /E-File project team project team has numerous projects planned or being implemented. FY10 accomplishments included: implementation of the ability to submit Amnesty Payments electronically; implementation of e-filing for Weight Distance E-Permits for 2010; implementation of PIT Net for tax year 2009; implementation of PIT-Net Lite for tax year 2009 for AARP and TAX HELP; and the redesign of CRS Net to include partial payments and amended returns. Planned tax programs and new processes for development in FY10 include the implementation of e-checks and credit card processing for MVD POS transactions through the TRD payment gateway; creation of a Generic Extract process to load e-file return data into GenTax; a Combined Fuel Tax E-Filing application; improving usability and color palette on existing E-file programs; and a Cigarette distributor monthly report E-Filing application. Ongoing efforts include creating data reports to help DPS and TRD staff reconcile transactions and provide better compliance.

Electronically Filed Tax Returns

The Revenue Processing Division (RPD) received approximately 682,573 Personal Income Tax (PIT) returns and 350,515 Combined Reporting System (CRS) returns (gross receipts tax) that were filed electronically. These returns amount to 66% of all incoming PIT returns and 30 % of all CRS returns received by the Department.

In addition, RPD received and processed 163,741 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. The Department is implementing mandatory electronic filing for the combined reporting system (CRS) Weight Distance and the Combined Fuel programs. They should be fully operational in this fiscal year.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010**

Delinquent Property Accounts

The Property Tax Division, Delinquent Property Tax Bureau is responsible for the collection of real property taxes that have become delinquent for more than two years. During FY10 the Bureau resolved a total of 12,497 delinquent property accounts, either by field collections or through property tax sales. Total collections netted \$2,161,578 in penalty and interest and \$400,662 in costs for an overall collection of \$2,562,240, all of which is retained by the Department.

Field collections resolved 10,806 accounts or 86% of the total resolved delinquent property accounts. The amount of penalty and interest collected through field collections was \$2,040,852 or 94% of the total penalty and interest collected. Field collections also netted \$373,770 in costs or 93% of the total cost collected.

Accounts that are not resolved through a field collections are scheduled for sale. There were 23 property tax sales conducted and the number of accounts offered for sale was 1,909. Property Tax Sales resolved 1,691 accounts or 14% of the total resolved delinquent property accounts. The amount of penalty and interest collected through sales was \$120,726 or 6% of the total penalty and interest collected. Sale collections also netted \$26,891 in costs or 7% of the total cost collected.

MVD Technology FY10

New Driver/Vehicle System - MVD has procured a new Driver/Vehicle system called "Milagro." MVD's current system for transacting core business such as issuing driver licenses/identification cards, license plates and vehicle registrations is more than 30 years old. This is the single most important initiative underway at the MVD.

MVD Website - In December 2009, MVD unveiled a totally new website with a focus on customer options and on-line services. Current on-line services included vehicle registration, appointments for motorcycle and vehicle road tests and 1st time foreign national driver licenses and IDs, check status of driver license, access to real time wait times at State MVD offices, fillable and printable forms, and some driver and vehicle record searches. The goal of the on-line services is to provide another option to customers and reduce volume and wait times at MVD field offices. Planned additions to on-line services include access to individual driving records, payment of citations, renewing driver licenses and IDs, and additional appointment options such as 1st time titles and driver licenses and IDs. The MVD website won the National Government Digital Achievement Award for best in State to Public websites.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010

Operations FY10

Fast Track Service - MVD has implemented "fast track service" in 13 of the 32 state operated field offices. Fast track services include express lanes for certain transactions, courtesy service for the elderly and disabled, and special LED signage in each field office. This service has reduced wait times and brought better efficiency to the offices. This fast track service is planned to expand to an additional 5 offices in 2011.

Private Retail Agents (Full Service Private MVDs) - In 2010, private retail agents (MVD Express/MVD Specialists) contracts were procured and expanded in the counties of Santa Fe, Sandoval, Bernalillo, Valencia, and Dona Ana. The state went from 13 to 16 Private offices expanding options for customers. In 2011, MVD is considering conducting another RFP for the counties of San Juan and San Miguel.

MVD Customer Service FY10

Mandated Course - MVD management has mandated that each MVD employee complete a newly developed Customer Service Leadership training course. This includes the use of nametags for all MVD field staff and a script for how to answer telephones and greet customers. It is estimated that by December 2010, 80% of employees will have completed the course. The remainder will complete the course by February 2011.

Contact Us - The new MVD website provides for customers to contact MVD through email and inquire about any issue. This includes general comments, questions on processes, or help with a specific problem. The MVD customer service team receives approximately 300 emails per week through the contact us service. It is the goal of the MVD to respond within 24 business hours. This service has proven to be liked by the customers. This provides another option for customers who may not have time to go into a field office or call by telephone and is available 24 hours a day, 7 days a week.

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.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010

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.

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 Fund, the Capital Project Fund, the Weight Distance Tax Permit Fund, the MVD Drive Fund, the Native American Fund and the Property Valuation Special Revenue Fund.

Fund Financial Statements. Fund financial statements consist of a series of statements that focus on information about the major governmental 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 non-major funds include the Property Valuation special revenue fund, in which funds are legally restricted for loans to counties to assist them with residential and non-residential property valuations, the Computer Equipment capital project fund, created to fund purchases of computer equipment, and the Native American Fund special revenue fund, in which funds are legally restricted for personal income tax refunds to Native Americans that may have been withheld from their military income.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010

The Department has two types of funds:

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

Fiduciary Funds – The fiduciary funds are used to report assets held in trustee or agency capacity for others and therefore are not available to support Department programs. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. 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

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010

Actual are also presented. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

Financial Analysis of the Department as a Whole

Net Assets: Total Department net assets for fiscal year ended June 30, 2010 are \$24,954,642. 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 \$16,281,486 at the end of the fiscal year.

The Department's Net Assets

	2010	2009
Assets		
Current and other assets	\$ 31,343,263	23,058,577
Capital assets	<u>10,366,578</u>	<u>10,676,534</u>
Total assets	<u>41,709,841</u>	<u>33,735,111</u>
Liabilities		
Current liabilities	16,755,161	9,262,432
Long-term liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>16,755,161</u>	<u>9,262,432</u>
Net Assets		
Invested in capital assets	10,366,578	10,676,534
Restricted	16,281,486	15,284,438
Unrestricted (deficit)	<u>(1,693,422)</u>	<u>(1,488,293)</u>
Total net assets	<u>\$ 24,954,642</u>	<u>24,472,679</u>

Governmental Activities: The table below summarizes the Department's activities for the fiscal years ended June 30, 2010 and 2009. Total change in net assets from the previous fiscal year was (\$518,037).

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010

The Department's Governmental Activities

	2010	2009
Program expenses	\$ (91,128,513)	(91,295,586)
Program revenue	<u>1,964,970</u>	<u>2,772,870</u>
Net program (expense) revenue	<u>(89,163,543)</u>	(88,522,716)
General revenues	99,570,335	89,129,251
Transfers and reversions	<u>(10,924,829)</u>	<u>(762,041)</u>
Net general revenues, transfers and reversions	<u>88,645,506</u>	88,367,210
Change in net assets	(518,037)	(155,506)
Net assets, beginning, as revised for new fund	<u>25,472,679</u>	<u>24,628,185</u>
Net assets, ending	<u>\$ 24,954,642</u>	<u>24,472,679</u>

Revenues for the governmental activities totaled \$101,535,307 and \$91,902,121 in the fiscal years ended June 30, 2010 and 2009, respectively. The change is attributable to an increase in general fund appropriations plus additional revenue from administrative fees, MVD revenue, and special appropriation for Native American Fund.

The Department's total expenditures for government-type activities during the fiscal year were \$91,128,513. Approximately 65% 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 (22%). The majority of this amount was used to support the general operations of the Department such as computer usage, telecommunications, printing motor vehicle forms and tax forms, postage, and leases for rent of office space.

The financial position of the Department has increased but remains consistent with that of the prior year. The decrease in net assets of \$518,037 is consistent with Fiscal Year 2010 activity.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010

Governmental Funds: The General Fund of the Department is used to account for the Department's primary operations. Of the total fund balance of \$16,559,959, \$5,291,853 is legally restricted for items funded with special appropriations received by the Department. An additional \$10,139,376 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 has been expended.

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 \$411,981 is legally restricted for this purpose.

The Native American special revenue fund is used to fund personal income tax refunds to Native Americans that may have been exempt from paying state personal income taxed on their military income, but may have had state personal income taxes withheld from their military income. The fund balance of \$438,276 is legally restricted for this purpose.

During FY10, capital asset activity included \$603,492 of capital outlay purchases for purchases of machinery and equipment, \$458,534 for data processing equipment, \$495,000 for leasehold improvements and \$1,195,670 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 \$17,410,216.

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.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010**

- Budget adjustment requests that increase or decrease other state funds based on actual revenues.

Changes between the original and final budgets were \$4,040,325 for the Operating Fund. The Operating Budget for Revenues classified as Other State Funds increased from \$15,483,700 to \$16,022,500 or \$538,800. This was a 3% increase from the original Operating Budget. Actual revenues collected, which are classified as Other State Funds, were \$16,341,435, or \$318,935 higher than the Operating Budget Amount. This represents a 2% increase over the budgeted amount.

Actual Federal grants revenue collected were \$1,964,970, which represents a 21% decrease over the budget amount. Sixty-six percent (66%) of all Federal grant revenue is attributable to the Minerals Management Service (MMS) grant.

The \$4,040,325 difference between the original operating revenue budget and the final operating revenue budget included \$2,381,750 in prior year cash balance re-budgeted. Re-budgeted cash balance consisted of fund balance generated from special appropriations, MVD Non-reverting revenue, Financial Responsibilities, Enhanced Driver's License and Delinquent Property Tax funding.

Budget adjustments for the Operating Fund were 7.4% of the original budget. The increases were from Federal funds, Other State Funds, and re-budgeted cash balance.

The majority of the increases from the original budget to the final budget pertain to Motor Vehicle Initiatives, which are supported by revenues related to sale of MVD data, and the Tax ID Program initiative to enforce weight-distance for the Audit Compliance Division and the Motor Vehicle Division, and Enhanced Drivers' License Fee fund balance; and Delinquent Property Tax fund balance for Property Tax Division's unanticipated expenses.

Significant variances between budgeted amounts and actual amounts are primarily due to the Governor's Executive Order 2009-44 to reduce government spending, the hiring freeze, and the furlough days due to the budget deficit; appropriations received for special projects that were not budgeted in fiscal year 2010, but are planned to be expended in future fiscal years; and federal grants awarded to the Department.

Capital Assets and Debt Administration

At the end of fiscal year 2010, the Department has invested a total of \$27,413,763 in governmental-type activities in capital assets. This amount represents a net increase (including additions and deductions) of \$2,140,267 (8.5%) over last year's figure of \$25,273,496 in gross capital assets without taking accumulated depreciation into account.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010

The Department's Capital Assets

	2010	2009
Furniture and fixtures	\$ 1,189,834	1,189,834
Software	16,216,777	15,021,107
Data processing equipment	6,303,692	5,967,744
Machinery and equipment	2,908,243	2,794,595
Tenant leasehold improvements	712,762	217,762
Vehicles	82,454	82,454
	<u>27,413,762</u>	<u>25,273,496</u>
Less accumulated depreciation	<u>17,047,184</u>	<u>14,596,961</u>
Net total	<u>\$ 10,366,578</u>	<u>10,676,535</u>

More detailed information about the Department's capital assets is presented in Note 5 to the financial statements.

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

Economic Factors and Next Year's Budgets and Rates

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

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

The Department's operating budget for fiscal year 2011 is \$82,169,500 and includes 1183.0 full time equivalents (FTE). The Department's original appropriated operating budget was \$84,234,100 but was reduced by \$2,064,600 pursuant to Section 14 of Laws of 2010 2nd Special Session, Chapter 6. The Department's FTE was also reduced by deleting 132.7 vacant positions. Due to the declining State General Fund revenue forecast the Department's operating budget has been significantly reduced from previous fiscal years. The decrease from FY10 is 8.6% primarily from the general fund appropriation.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010**

The Department also received non-recurring funding of \$8,300,000 to replace the 30-year-old common business oriented language-based driver and vehicle systems funded with MVD cash balances and revenues. In addition, two special appropriations were extended through FY12. The Point of Sale (\$2,752,500) funded with MVD cash balance and Driver Re-Engineering (\$4,120,000) funded with the computer systems enhancement fund.

As required by the Accountability in Government Act, fiscal year 2010 was the ninth 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.

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
STATEMENT OF NET ASSETS
June 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Unrestricted cash on hand	\$ 19,125
Interest in the State Treasurer General Fund	
Investment Pool	
Unrestricted	26,949,533
Restricted for loans to counties	261,543
Receivables	
Due from federal government	651,735
Loans to counties, net	160,174
Other receivables, net	9,783
Due from external parties	1,982,280
Due from other entities	199,485
Prepaid expenses	46,000
Inventory of supplies	1,063,605
	<hr/>
Total current assets	31,343,263
Non-Current Assets	
Capital assets, net	10,366,578
	<hr/>
Total assets	<u>\$ 41,709,841</u>
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 4,419,374
Accrued payroll	2,984,226
Due to other state agencies	87,955
Due to State General Fund	6,298,436
Due to external parties	115,272
Other training liabilities	27,784
Compensated absences	2,495,409
Contingent liability	326,743
	<hr/>
Total liabilities	16,755,199
Net Assets	
Invested in capital assets	10,366,578
Restricted for special appropriations	5,730,129
Restricted for loans to counties	411,981
Restricted for other purposes	10,139,376
Unrestricted net assets (deficit)	(1,693,422)
	<hr/>
Total net assets	<u>\$ 24,954,642</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

	<u>Program Support</u>	<u>Tax Administration Act</u>	<u>Motor Vehicle Program</u>	<u>Property Tax Program</u>	<u>Compliance Enforcement</u>	<u>Other Governmental Funds</u>	<u>Governmental Activities</u>
Program Expenses	\$ 25,634,052	32,972,123	26,542,781	3,268,525	2,176,025	535,007	91,128,513
Total program expenses	25,634,052	32,972,123	26,542,781	3,268,525	2,176,025	535,007	91,128,513
Program Revenues							
Federal operating grants	-	1,303,086	661,884	-	-	-	1,964,970
Total program revenues	-	1,303,086	661,884	-	-	-	1,964,970
Net Program Expense	(25,634,052)	(31,669,037)	(25,880,897)	(3,268,525)	(2,176,025)	(535,007)	(89,163,543)
General Revenues							
Other state funds:							
Delinquent Property Tax							
Penalty and Interest							2,460,200
Bond Proceeds Appropriations							194,738
Weight Distance Administrative Fees							3,188,635
MVD Administrative Fees							14,810,548
Other Administrative Fees							3,716,614
Total general revenues							24,370,735
Transfers and Reversions							
State General Fund appropriations							70,979,600
State General Fund special appropriations							4,220,000
Transfers to other state agencies							(2,815,000)
Fund Balance Transfers							(1,726,750)
Reversions to State General Fund - FY10							(6,383,079)
Total transfers and reversions							64,274,771
Net General Revenues, Transfers and Reversions							88,645,506
Change in net assets							(518,037)
Net assets, beginning of fiscal year, as previously reported							24,472,679
Addition of new fund							1,000,000
Net assets, beginning of year, as revised for new fund							25,472,679
Net assets, end of fiscal year							\$ 24,954,642

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2010

	Major Funds			Total Governmental
	General	TRIMS	Other	
ASSETS				
Interest in the State Treasurer General Fund				
Investment Pool	\$ 26,679,742	-	531,334	27,211,076
Cash on hand	19,125	-	-	19,125
Receivables				
Due from federal government	651,735	-	-	651,735
Loans to counties, net	-	-	160,174	160,174
Other receivables, net	9,783	-	-	9,783
Due from:				
External parties	1,982,280	-	-	1,982,280
Other entities	4,709	-	194,776	199,485
Inventory of supplies	1,063,605	-	-	1,063,605
Prepaid expenses	46,000	-	-	46,000
Total assets	\$ 30,456,979	-	886,284	31,343,263
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 4,393,121	-	26,253	4,419,374
Accrued payroll	2,984,226	-	-	2,984,226
Due to external parties	115,272	-	-	115,272
Due to other state agencies	78,181	-	9,774	87,955
Due to State General Fund	6,298,436	-	-	6,298,436
Other liabilities	27,784	-	-	27,784
Total liabilities	13,897,020	-	36,027	13,933,047
Fund Balances				
Reserved for				
Cash on hand	19,125	-	-	19,125
Inventory of supplies	1,063,605	-	-	1,063,605
Prepaid expenses	46,000	-	-	46,000
Special appropriations	5,291,853	-	438,276	5,730,129
Loans to counties	-	-	411,981	411,981
Unreserved, designated	10,139,376	-	-	10,139,376
Unreserved, undesignated	-	-	-	-
Total fund balances	16,559,959	-	\$50,257	17,410,216
Total liabilities and fund balances	\$ 30,456,979	-	886,284	31,343,263

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS
Year Ended June 30, 2010

Total Fund Balances - Governmental Funds (Governmental Fund Balance Sheet)	\$ 17,410,216
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	27,413,762
Accumulated depreciation recorded in the Statement of Net Assets, but not recorded in the governmental funds	(17,047,184)
Contingent liabilities recorded in Statement of Net Assets, but not recorded in the governmental funds	(326,743)
Compensated absences recorded in the Statement of Net Assets, but not recorded in the governmental funds	<u>(2,495,409)</u>
Net assets of governmental activities (Statement of Net Assets)	<u><u>\$ 24,954,642</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
June 30, 2010

	Major Funds		Other	Total Governmental
	General	TRIMS		
Revenues				
Other state funds	\$ 24,175,999	-	194,738	24,370,737
Federal funds	1,964,970	-	-	1,964,970
Total revenues	26,140,969	-	194,738	26,335,707
Expenditures				
Current				
Personal services and employee benefits	59,040,966	-	-	59,040,966
Contractual services	8,521,427	72,743	-	8,594,170
Other costs	19,684,376	541	461,724	20,146,641
Capital outlay	2,557,957	-	194,738	2,752,695
Total expenditures	89,804,726	73,284	656,462	90,534,472
Excess (Deficiency) of Revenues Over Expenditures	(63,663,757)	(73,284)	(461,724)	(64,198,765)
Other Financing Sources (Uses)				
State General Fund appropriations	75,199,600	-	-	75,199,600
Fund balance transfers	(1,726,750)	-	-	(1,726,750)
Transfers to other state agencies	(1,615,000)	-	(1,200,000)	(2,815,000)
Reversions to State General Fund - FY10	(6,376,617)	-	(6,462)	(6,383,079)
Total other financing sources (uses)	65,481,233	-	(1,206,462)	64,274,771
Net changes in fund balances	1,817,476	(73,284)	(1,668,186)	76,006
Fund balances, June 30, 2009 as previously reported	14,742,483	73,284	1,518,443	16,334,210
Addition of new fund	-	-	1,000,000	1,000,000
Fund balances, June 30, 2009 as revised for new fund	14,742,483	73,284	2,518,443	17,334,210
Fund balances, June 30, 2010	\$ 16,559,959	-	850,257	17,410,216

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$	76,006
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		2,752,695
Loss on disposal of capital assets not recorded as expenditures in the governmental funds		(221,899)
Depreciation expense recorded in the Statement of Activities but not recorded as expenditures in the governmental funds		(2,840,753)
Additional FY10 Contingent Liabilities		(226,743)
Net change in compensated absences recorded in the Statement of Activities as a liability but not recorded in the governmental funds		<u>(57,343)</u>
Change in net assets of governmental activities (Statement of Activities)	\$	<u><u>(518,037)</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
OPERATING FUND 17200
Year Ended June 30, 2010

	PROGRAM SUPPORT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 25,425,600	25,425,600	25,425,600	-
Other state funds	1,261,000	1,243,800	1,291,078	47,278
Total revenues	26,686,600	26,669,400	\$ 26,716,678	47,278
Fund Balance Budgeted	5,014,746	5,014,746		
Total revenues and fund balance budgeted	\$ 31,701,346	31,684,146		
Expenditures				
Personal services/employee benefits	\$ 15,715,400	15,140,400	14,083,617	1,056,783
Contractual services	9,285,419	9,231,299	4,530,115	4,701,184
Other	6,700,527	7,312,447	6,492,839	819,608
	\$ 31,701,346	31,684,146	25,106,571	6,577,575

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2010

TAX ADMINISTRATION ACT

	TAX ADMINISTRATION ACT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 31,485,400	31,485,400	31,535,400	50,000
Other state funds	1,935,000	2,385,000	2,425,538	40,538
Federal funds	1,516,300	1,619,219	1,303,086	(316,133)
Total revenues	34,936,700	35,489,619	\$ 35,264,024	(225,595)
Fund Balance Budgeted	430,592	430,592		
Total revenues and fund balance budgeted	\$ 35,367,292	35,920,211		
Expenditures				
Personal services/employee benefits	\$ 26,590,000	26,277,500	24,800,256	1,477,244
Contractual services	255,500	468,000	293,535	174,465
Other	8,521,792	9,174,711	7,495,111	1,679,600
	\$ 35,367,292	35,920,211	32,588,902	3,331,309

Omitted Fund 99400

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2010

MOTOR VEHICLE PROGRAM *				
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 15,109,800	15,109,800	15,109,800	-
Other state funds	9,677,500	9,783,500	10,164,619	381,119
Federal funds	-	874,156	661,884	(212,272)
Total revenues	24,787,300	25,767,456	\$ 25,936,303	168,847
Fund balance budgeted	4,364	2,386,114		
Total revenues and fund balance budgeted	\$ 24,791,664	28,153,570		
Expenditures				
Personal services/employee benefits	\$ 15,600,700	15,972,950	14,735,285	1,237,665
Contractual services	3,096,900	3,786,172	3,229,927	556,245
Other	6,094,064	6,667,698	6,339,901	327,797
Other financing uses	-	1,726,750	1,726,750	-
	\$ 24,791,664	28,153,570	26,031,863	2,121,707

* Less SHARE Funds 99400 and 79800

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2010

	PROPERTY TAX PROGRAM			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 632,300	632,300	632,300	-
Other state funds	2,610,200	2,610,200	2,460,200	(150,000)
Total revenues	3,242,500	3,242,500	\$ 3,092,500	(150,000)
Fund balance budgeted	244,000	386,700		
Total revenues and fund balance budgeted	\$ 3,486,500	3,629,200		
Expenditures				
Personal services/employee benefits	\$ 2,781,600	2,741,600	2,580,475	161,125
Contractual services	127,300	107,300	99,862	7,438
Other	577,600	780,300	585,091	195,209
	\$ 3,486,500	3,629,200	3,265,428	363,772

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2010

	COMPLIANCE ENFORCEMENT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 2,496,500	2,496,500	2,496,500	-
Total revenues	2,496,500	2,496,500	<u>\$ 2,496,500</u>	-
Fund balance budgeted	-	-		
Total revenues and fund balance budgeted	<u>\$ 2,496,500</u>	<u>2,496,500</u>		
Expenditures				
Personal services/employee benefits	\$ 1,973,100	1,973,100	1,807,170	165,930
Contractual services	20,100	28,100	28,096	4
Other	503,300	495,300	339,003	156,297
	<u>\$ 2,496,500</u>	<u>2,496,500</u>	<u>2,174,269</u>	<u>322,231</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2010

	TOTAL OPERATING FUND			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 75,149,600	75,149,600	75,199,600	50,000
Other state funds	15,483,700	16,022,500	16,341,435	318,935
Federal funds	1,516,300	2,493,375	1,964,970	(528,405)
Total revenues	92,149,600	93,665,475	\$ 93,506,005	(159,470)
Fund balance budgeted	5,693,702	8,218,152		
Total revenues and fund balance budgeted	\$ 97,843,302	101,883,627		
Expenditures				
Personal services/employee benefits	\$ 62,660,800	62,105,550	58,006,803	4,098,747
Contractual services	12,785,219	13,620,871	8,181,535	5,439,336
Other	22,397,283	24,430,456	21,251,945	3,178,511
Other financing uses	-	1,726,750	1,726,750	-
	\$ 97,843,302	101,883,627	89,167,033	12,716,594

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
DRIVE MVD FUND 79800
Year Ended June 30, 2010

MOTOR VEHICLE PROGRAM

	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other state funds	\$ -	-	4,645,929	4,645,929
Federal funds	-	372,888	-	(372,888)
Total revenues	-	372,888	\$ 4,645,929	4,273,041
Fund balance budgeted	-	280,000		
Total fund balance budgeted	\$ -	652,888		
Expenditures				
Personal services/employee benefits	\$ -	137,105	-	137,105
Contractual services	-	485,783	-	485,783
Other	-	30,000	-	30,000
	\$ -	652,888	-	652,888

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
WEIGHT DISTANCE TAX PERMIT FUND 99400
Year Ended June 30, 2010

MOTOR VEHICLE PROGRAM

	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other state funds	\$ 1,704,500	2,935,400	3,188,635	253,235
Total revenues	1,704,500	2,935,400	<u>\$ 3,188,635</u>	<u>253,235</u>
Fund balance budgeted	-	1,439,700		
Total fund balance budgeted	<u>\$ 1,704,500</u>	<u>4,375,100</u>		
Expenditures				
Personal services/employee benefits	\$ 1,099,400	1,099,400	1,034,163	65,237
Contractual services	20,000	363,000	339,892	23,108
Other	585,100	1,297,700	928,445	369,255
Other Financing Uses	-	1,615,000	1,615,000	-
	<u>\$ 1,704,500</u>	<u>4,375,100</u>	<u>3,917,500</u>	<u>457,600</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2010

	<u>Fund 17200</u>	<u>Fund 79800</u>	<u>Fund 99400</u>	<u>Total General Fund</u>
Total Expenditures and Other Financing Uses (Statement of Revenues, Expenditures and Changes in Fund Balances)	\$ 89,228,977	-	3,917,500	93,146,477
Requests to pay prior year bills: FY09 bills paid from FY 10 budget subsequent to the 60-day period of availability per GAAP	(61,942)	-	-	(61,942)
Total Expenditures (Statement of Revenues and Expenditures, Budget and Actual for General Fund)	<u>\$ 89,167,035</u>	<u>-</u>	<u>3,917,500</u>	<u>93,084,535</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS
Year Ended June 30, 2010

Assets

Interest in State General Fund Investment Pool	\$ 608,395,763
Cash on hand and in banks	2,639,835
Receivables:	
Counties, municipalities and fee agents	1,837,576
Due from State General Fund	146,240,470
Due from other state agencies	28,693,935
Due from taxpayers	707,606,506
Citations	25,270,225
Tax assessments	840,365,665
Allowance for uncollectibles	<u>(865,635,890)</u>
 Total assets	 <u><u>\$ 1,495,414,085</u></u>

Unidentified tax collections	\$ 153,378,691
Due to State General Fund	691,542,585
Due to counties and municipalities	264,035,555
Due to other state agencies	181,687,641
Due to external parties	1,867,009
Refunds due to taxpayers	197,217,396
Due to other governments	12,251
Reserve for Litigated Assessments	<u>5,672,957</u>
 Total liabilities	 <u><u>\$ 1,495,414,085</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1. NATURE OF ORGANIZATION

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

Office of the Secretary. The Office provides overall leadership, administration, and support for the department. The Office sets forth policy for the administration and enforcement of tax laws, oversees Department operations 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
June 30, 2010

NOTE 1. NATURE OF ORGANIZATION (CONTINUED)

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. 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.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Government-wide and Fund Financial Statements. The government-wide financial statements (i.e., the statement of net 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 separate columns in the fund financial statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

In applying the “susceptible to accrual” concept to intergovernmental revenues 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.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Department reports the following major governmental funds:

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

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

Capital Project Funds

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

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

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. Due to the lack of activity, this fund is not budgeted.

The Native American Fund is a special revenue fund. The Native American Fund (Laws of 2009, Chapter 289) was created via a special appropriation. The net assets of this fund are legally restricted for Native American personal income tax refunds, for Native American veterans who may have been exempt from paying state personal income taxes on their military income, but may have had state personal income taxes withheld from their military income.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Funds. Fiduciary funds account for assets held by the Department in a trustee capacity or as an agent for individuals, private organizations other government units and/or funds. The fiduciary fund type includes agency funds, which are custodial in nature and do not present results of operations. Agency funds are used to account for assets that the Department holds for others in an agency capacity. It is comprised of collection funds, which account for all activity of the tax programs administered by the Department, unclaimed property and fuel users/suppliers bonds. Unmatched money (money that cannot be matched to tax returns) over sixty days is remitted to the State General Fund per statute. These funds are subject to be refunded to the taxpayer or subject to being distributed to local governments once the proper tax return is identified and matched to the funds. The balance of the unmatched money sent to the State General Fund as of June 30, 2010 was \$96.8 million.

The Department has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Department has elected to not apply FASB pronouncements issued after the applicable date.

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

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

"Interest in the State 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.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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." The Department does not have any 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, Drive MVD Fund 79800 and Weight Distance Tax Permit Fee Fund 99400) and the special revenue Native American Fund 10690. 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.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. The Department submits a proposed budget to the New Mexico state legislature for the fiscal year commencing the following July 1. The state legislature must approve the budget prior to the legal enactment.
2. The expenditures and encumbrances of each appropriation unit may not legally exceed the budget for that category. Budgets are controlled at the “appropriation unit” level within activities (personal services and benefits, contractual services, etc.).
3. Any adjustment to the budget must be submitted to and approved by the State of New Mexico Department of Finance and Administration State Budget Division in the form of a budget adjustment request.
4. Beginning in FY 2006, the annual budget, per the General Appropriations Act, Laws of 2006, Chapter 109, Section 3, Subsections N and O, was adopted on a modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978) 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 2010 shall revert to the [state] general fund by September 30, 2010, 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, 2010 (FY10), but were unpaid by that date. In these circumstances, accounts payable amounts were established in FY10 at fiscal year end. These payments were processed as “Requests to Pay Prior Year Bills” in FY10 and were paid from FY11 budget. The related accounts payable amount for FY10 was included on “Balance Sheet – Governmental Funds” and the expenditures are included on “Statement of Revenues, Expenditures, and Changes in Fund Balances” since these fund financial statements are prepared using the modified accrual basis of accounting. However, “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

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

statement. Therefore, “Reconciliation of Expenditures from the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Revenues and Expenditures – Budget and Actual” 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.

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

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

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

**NOTE 3. CASH AND INTEREST 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.

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

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

**NOTE 3. CASH AND INTEREST IN THE STATE TREASURER GENERAL
FUND INVESTMENT POOL (CONTINUED)**

Treasurer issues separate financial statements which disclose the type of purchased security investments held (i.e. bond, note, Treasury bill, etc.), categories of risk involved, security number, Committee on Uniform Securities Identification Procedures (CUSIP) identification number, fair market value, maturity date of securities held, name of the custodian and the place of safekeeping for all "collateral" pledged to secure State Agency cash deposits. The bank balances as of June 30, 2010, are entirely insured or collateralized with securities held by the agent in the bank's name.

As of June 30, 2010, the reconciled interest in the State Treasurer's General Fund Investment Pool was \$635,606,839.

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

Cash on hand (petty cash and change funds) in the amount of \$19,125 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, 2010.

NOTE 4. RECEIVABLES

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

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 4. RECEIVABLES (CONTINUED)

Approximately \$196,642,744 of the active tax assessments issued by the Department and listed below are under protest and/or subject to litigation.

At June 30, 2010, the Department's receivables, including the applicable allowances for uncollectable accounts are as follows:

	<u>Governmental Funds</u>		<u>Fiduciary Funds</u>
	General	Special Revenue	Agency
Receivables:			
Accounts receivable	\$ 26,840	-	884,378,486
Federal grants	651,735	-	-
County property valuation loans	-	400,174	-
Tax assessments considered uncollectible	-	-	<u>865,635,890</u>
Gross receivables	<u>678,575</u>	<u>400,174</u>	<u>1,750,014,376</u>
less allowance for uncollectibles	<u>(17,057)</u>	<u>(240,000)</u>	<u>(865,635,890)</u>
Total receivables, net	<u>\$ 661,518</u>	<u>160,174</u>	<u>884,378,486</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 \$17,057 has been recorded for accounts where collection cannot be assured.

County Property Valuation Loans

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

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.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 4. RECEIVABLES (CONTINUED)

Receivables – Fiduciary Funds Tax Assessments

At June 30, 2010, tax assessments and penalty citations issued and uncollected by the Fiduciary Fund Type were:

Compensating and withholding taxes	\$ 500,430,776
Personal income tax	170,600,990
Corporate income tax	85,235,956
Gasoline tax	30,650,175
Citations	25,270,225
Special fuel supplier	24,995,037
Cigarette tax	5,630,566
Petroleum products loading fee	5,501,937
Fiduciary income tax	4,533,016
Combined fuel tax	3,960,907
Tobacco products	2,388,330
Enhanced 911 tax	1,698,140
Restitution	802,254
Workers' compensation tax	726,577
Estate tax	96,102
Delinquent tax	83,769
Unclaimed property	35,376
Liquor excise tax	26,176
Water conservation fees	15,876
Daily bed surcharge	4,331
Telecommunications relay surcharge	4,037
Bingo and raffle tax	2,318
Gaming	976
Local liquor tax	895
Alternative fuel distributors	768
Railroad car tax	20
Weight distance tax	-
Oil and gas tax programs:	
ONGARD oil and gas (OGT)	<u>2,940,360</u>
Total receivables, fiduciary funds tax assessments	<u>\$ 865,635,890</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Governmental activities:				
Capital assets being depreciated:				
Furniture and fixtures	\$ 1,189,834	-	-	1,189,834
Software	15,021,107	1,195,670	-	16,216,777
Data processing equipment	5,967,744	458,534	(122,586)	6,303,692
Machinery and equipment	2,794,595	603,491	(489,843)	2,908,243
Tenant leasehold improvements	217,762	495,000	-	712,762
Vehicles	<u>82,454</u>	<u>-</u>	<u>-</u>	<u>82,454</u>
Total capital assets being depreciated	25,273,496	2,752,695	(612,429)	27,413,762
Less accumulated depreciation for:				
Furniture and fixtures	(816,092)	(114,461)	-	(930,553)
Software	(7,931,044)	(1,518,527)	-	(9,449,571)
Data processing equipment	(3,504,281)	(859,890)	118,267	(4,245,904)
Machinery and equipment	(2,168,398)	(288,480)	272,263	(2,184,615)
Tenant leasehold improvements	(125,729)	(47,517)	-	(173,246)
Vehicles	<u>(51,417)</u>	<u>(11,878)</u>	<u>-</u>	<u>(63,295)</u>
Total accumulated depreciation	<u>(14,596,961)</u>	<u>(2,840,753)</u>	<u>390,530</u>	<u>(17,047,184)</u>
Capital assets, net	\$ <u>10,676,535</u>	<u>(88,058)</u>	<u>(221,899)</u>	<u>10,366,578</u>

Depreciation expense of \$2,840,753 was charged to the following programs:

Program Support	\$ 2,073,750
Tax Administration Act	383,113
Motor Vehicle Program	<u>383,890</u>
	<u>\$ 2,840,753</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 5. CAPITAL ASSETS (CONTINUED)

Capital asset activity included \$2,752,695 of capital outlay acquisitions, primarily for purchases of data processing equipment and software.

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

NOTE 6. 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, 2010 and are comprised of the following balances:

Fund	Fund Description	Interfund Receivable	Interfund Payable
Operating Funds:			
17200	General Fund – Operations	\$ 1,346,768	115,272
79800	Drive MVD	432,899	-
99400	Tax Identification Fund	<u>202,613</u>	<u>-</u>
Total Operating Funds		<u>1,982,280</u>	<u>115,272</u>
Fiduciary Funds:			
64200	PIT (TAA) Suspense	-	220,386
68100	County & Municipal Gasoline	6,063,024	-
68200	County & Muni Recreation	136,948	-
68300	County & Municipal Cigarette	273,115	-
68400	Small Cities Assistance	1,185,951	-
70900	Local Liquor Excise Tax	198,661	-
71300	Oil & Gas Ad Valorem Prod. Tax	26,839,843	-
71500	Ad Valorem Equipment Tax	4,572	-
82500	Transportation & MVD Suspense	6,451,613	1,438,046
82800	TAA Suspense Fund	-	13,133,817
83100	Workers' Compensation Fund	-	142,477
83200	CRS (TAA) Suspense	-	1,461,980
83300	Oil & Gas Suspense Fund	<u>220,386</u>	<u>26,844,415</u>
Total Fiduciary Funds		<u>41,374,113</u>	<u>43,241,121</u>
Total Interfund Balances		\$ <u>43,356,393</u>	<u>43,356,393</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 7. INTRA-FUND TRANSFERS

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

Additions:	
Personal Income Tax Suspense	\$ 380,289,383
TAA Suspense / Other	45,481,752
Oil and Gas	<u>145,644,526</u>
Total	<u>\$ 571,415,661</u>
Deductions:	
CRS Suspense	\$ 380,289,383
TAA Suspense / Other	45,481,752
Oil and Gas	<u>145,644,526</u>
Total	<u>\$ 571,415,661</u>

NOTE 8. 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, 2010, facilities rental expenditures were \$3,708,392.

NOTE 9. LIABILITIES

Current Liabilities. The Department's General Fund total current liabilities during the fiscal year were \$13,897,020. Approximately 53% of the current liabilities are attributable to accounts payable and accrued payroll. The General Fund accounts payable of \$4,393,121 consists of goods or services received by the Department by June 30, 2010 but paid after June 30, 2010. The General Fund accrued payroll of \$2,984,226 consists of payroll expenditures incurred from June 12, 2010 through June 30, 2010 but paid after June 30, 2010.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 9. LIABILITIES (CONTINUED)

The Department has an estimated potential loss of \$326,743 regarding pending cases in which it has been estimated that there is a 75% chance of an unfavorable outcome. The Department has recorded the pending settlement as a long term liability and expenditure in the Statement of Net Assets and Statement of Net Activities.

Compensated Absences. Compensated absences for the year ended June 30, 2010 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences payable	\$ 2,438,066	4,212,168	4,154,825	2,495,409	2,495,409
Total long-term liabilities	\$ 2,438,066	4,212,168	4,154,825	2,495,409	2,495,409

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

NOTE 10. DUE TO STATE GENERAL FUND (REVERSIONS)

Unexpended and unencumbered cash balances of certain funds revert to the State General Fund at year-end. The Governor issued Executive Order 2009-044 in November 2009 which required State Agencies under the Governor’s control to impose General Fund expenditure and encumbrance restrictions for fiscal year 2010 and required the furlough of state employees to help address the FY10 budget shortfall. These savings were processed by the Department of Finance and Administration as reversions to the State General Fund. Current year reversions due to the State General Fund as of June 30, 2010 were as follows:

Reversions:	
<u>FY 10 Reversion</u>	
Executive Order 2009-044 Reversion	4,697,300
Expenditure reversions	1,525,285
Revenue reversions	<u>160,493</u>
Total FY10 Reversions	6,383,078
Less Reversions Due State Land Office	(78,180)
Less Payments made in FY10	<u>(6,462)</u>
Total due to State General Fund at June 30, 2010	<u>\$ 6,298,436</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 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, 2010, 2009 and 2008 were \$6,292,188, \$7,060,641 and \$6,406,683, respectively, equal to the amount of the required contribution for each year.

NOTE 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

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 12. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)

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

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

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

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. In the fiscal years ending June 30, 2011 through June 30, 2013, the contribution rates for employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY 11	1.666%	.833%
FY 12	1.834%	.917%
FY 13	2.000%	1.000%

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.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 12. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)

The Department's contributions to the RHCA for the years ended June 30, 2010, 2009 and 2008 were \$535,225, \$539,434 and \$490,499, respectively, which equal the required contributions for each year.

NOTE 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.

NOTE 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, 2010, 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 \$196,642,744 for the fiscal year. In addition, there are various lawsuits by taxpayers claiming refunds from various tax programs where no specified dollar amount under protest has been identified. Management intends to contest all cases vigorously. Any liability would be paid for out of the Department's agency funds.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 14. CONTINGENCIES (CONTINUED)

The Department may incur costs of \$326,743 pending a legal settlement. 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.

NOTE 15. JOINT POWERS AGREEMENTS / MEMORANDUMS OF UNDERSTANDING

ONGARD Service Center

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

- Responsible Party: The Taxation and Revenue Department
- Time period: January 14, 2004 to indefinite
- FY10 Amount of Project: \$1,689,500
- Portion Applicable to NMTRD: \$1,17,800 State General Fund
- Audit Responsibility: NMTRD
- Revenue Reported: NMTRD

OHKAY Owingeh

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

- Responsible Party: The Taxation and Revenue Department
- Time period: January 22, 2010 to indefinite
- FY09 Amount of Project: -0-
- Portion Applicable to NMTRD: -0-
- Audit Responsibility: NMTRD
- Revenue Reported: N/A

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

**NOTE 15. JOINT POWERS AGREEMENTS / MEMORANDUMS OF
UNDERSTANDING (CONTINUED)**

GSD Property Control Division

The Department participates in an MOU between NMTRD Motor Vehicle Division and GSD Property Control Division to provide project administration for the commercial vehicle requirements for the new Santa Fe MVD Santa Fe building project.

- Responsible Party: The General Services Department
- Time period: February 27, 2009 to completion of project
- Amount of Project: \$500,000
- Portion Applicable to NMTRD: \$500,000 State General Fund
- Audit Responsibility: NMGSD
- Revenue Reported: NMGSD

NM Institute of Mining and Technology Security Enhancement Services

The Department participates in an MOU with New Mexico Institute of Mining and Technology. New Mexico Institute of Mining and Technology will perform secure network architectures implementation and assist with network migration.

- Responsible Party: NMTRD
- Time period: April 5, 2010 to June 30, 2010
- Amount of Project: \$42,650
- Portion Applicable to NMTRD: \$42,650
- Audit Responsibility: NMTRD
- Revenue Reported: NM Institute of Mining and Technology

City of Santa Fe

The Department participates in an MOU with the City of Santa Fe. The City of Santa Fe will allow TRD employees parking at the Santa Fe City Convention Center parking lot and metered parking using cash keys. TRD will pay the parking fees to the City of Santa Fe Parking Division for TRD employees that utilize the SFCCC parking garage and the purchase of cash key reloads.

- Responsible Party: NMTRD
- Time period: Expires June 30, 2010
- Amount of Project: Based on parking usage
- Portion Applicable to NMTRD: 100%
- Audit Responsibility: NMTRD
- Revenue Reported: City of Santa Fe

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

**NOTE 15. JOINT POWERS AGREEMENTS / MEMORANDUMS OF
UNDERSTANDING (CONTINUED)**

NM Institute of Mining and Technology Security Enhancement Services

The Department participates in an MOU with New Mexico Institute of Mining and Technology. New Mexico Institute of Mining and Technology will provide security enhancement services to include secure network architectures design, assistance with network architecture implementation, and system hardening.

- Responsible Party: NMTRD
- Time period: March 4, 2009 to August 30, 2009
- Amount of Project: \$37,700
- Portion Applicable to NMTRD: \$37,700
- Audit Responsibility: NMTRD
- Revenue Reported: NM Institute of Mining and Technology

UNM Forecasting Services

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

- Responsible Party: NMTRD
- Time period: July 1, 2009 to June 30, 2010
- Amount of Project: \$99,608
- Portion Applicable to NMTRD: \$29,052
- Audit Responsibility: NMTRD
- Revenue Reported: UNM

Bernalillo County Metropolitan Court

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

- Responsible Party: NMTRD
- Time period: May 1, 2010 to June 30, 2011
- Amount of Project: Based on hourly rate and amount of usage.
- Portion Applicable to NMTRD: 100% of cost incurred
- Audit Responsibility: NMTRD
- Revenue Reported: Bernalillo County Metropolitan Court, Central Parking Division

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 16. ADDITION OF NEW FUND

Effective July 1, 2009, the Department added a new fund to the financial statements. This fund was statutorily created by the laws of 2009, Chapter 289 via special appropriation.

SHARE

<u>Fund No.</u>	<u>Fund Title</u>	<u>Amount</u>	<u>Purpose</u>
10690	Native American Fund	\$1,000,000	To record monies received By Special Appropriation At the end of FY09

NOTE 17. MISCLASSIFICATION OF EXPENDITURES

In FY09 the Taxation and Revenue Department made expenditures of \$174,000 from a special appropriation that were inconsistent with the purpose of the appropriation. This resulted in an under reversion of the special appropriation and an over reversion of other appropriations for the same amount. This has been identified by the Department of Finance as a misclassification of expenditures between revenue sources.

In FY10 the Taxation and Revenue Department made expenditures of \$36,766 from a special appropriation that were inconsistent with the purpose of the appropriation. A journal entry was prepared to properly reclassify the expenditures from the special appropriation to the Information Technologies operating budget.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 18. 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:		
Native American Settlement	Laws of 2009, Chapter 124, Section 5, \$1,000,000 does not revert	\$ 438,276
Tax Amnesty Program	Laws of 2010 Special Session, Chapter 2, Section 2, \$500,000 through	416,931
MVD Driver System	Laws of 2008, Chapter 3, Section 7, \$4,120,000 through FY12	3,688,787
MVD Point of Sale	Laws of 2008, Chapter 3, Section 7, \$2,453,000 through FY12	721,757
Gentax Upgrade	Laws of 2009, Chapter 124, Section 7, \$1,682,500 through FY11	464,377
Total General Fund:		<u>5,730,128</u>
Capital Improvements Projects Fund 88500:		
TRD Tax Policy Project	Laws of 2007, Chapter 42, Section 73	-
Total Fund Balance - Reserved for Special Appropriations		<u>\$ 5,730,128</u>
Fund Balance - Reserved:		
General Fund:		
Financial Responsibility Act	NMSA 1978, Section 66-5-201 and 66-6-23A(5)(e)	\$ 360,400
EDL - Enhanced Driver's License	NMSA 1978, Section 66-5-44, C	902,262
Delinquent Property Tax	NMSA 1978, Section 7-38-62	2,276,696
PIT Intercept Administration Fees	NMSA 1978, Section 7-2C-12	250,889
MVD Non-Reverting Revenues	Laws of 2009, Chapter 156, Section 1 through 7	252,405
Out of State DWI Verification	NMSA 1978, Section 66-5-44, B	631,264
Drive MVD Fund 79800		4,645,929
Tax Identification Card Fund 99400	NMSA 1978, 7-15A-14	819,531
Total General Fund Balance - Reserved for Subsequent Years' Expenditures		<u>10,139,376</u>
TRIMS Capital Project Fund 08600	Laws of 1999, Chapter 10, Section 1, Subsection D	-
Property Valuation Fund 34800 (Loans to	NMSA 1978, 7-35-3(B)	411,981
Total Fund Balance - Reserved		<u>\$ 10,551,357</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 19. REVENUES

General fund revenue reported for the year ended June 30, 2010, consisted of the following:

	General Fund	Other Governmental Funds	Total Governmental Funds
Other State Funds:			
Delinquent Property Tax	\$ 2,460,200	-	2,460,200
Workers Comp Assessment	741,100	-	741,100
Alcoholic Beverage Tax	71,364	-	71,364
Unclaimed Property	399,700	-	399,700
Sale of MVD Data	3,119,960	-	3,119,960
Motor Vehicle - Special Plates	157,084	-	157,084
Temporary Permits	270,613	-	270,613
Private Retail Agents	554,548	-	554,548
Enhanced Drivers License (EDL)	3,226,553	-	3,226,553
Parental Responsibilities	79,125	-	79,125
Provisional License	254,699	-	254,699
Hazmat Fingerprinting	104,771	-	104,771
Financial Responsibilities	3,427,044	-	3,427,044
Motorcycle & Off Highway Registration Fee	273,469	-	273,469
Out of State DWI Verification Interlock	442,305	-	442,305
Weight Distance Tax Administrative Fees	3,188,635	-	3,188,635
Motor Vehicle Admin Fees	2,898,796	-	2,898,796
STB Bonds for Capital Assets	-	194,738	194,738
State Land Office Transfers	571,700	-	571,700
Other Admin Fees (PIT & GRT)	1,928,500	-	1,928,500
Misc. Revenue - Program	5,833	-	5,833
Total Other State Funds	24,175,999	194,738	24,370,737
Other Financing Sources:			
Other Gifts and Grants	-	-	-
Interest Income	-	-	-
Total Other Financing Sources	-	-	-
General Fund:			
State General Fund Appropriations	75,199,600	-	75,199,600
Transfers to other state agencies	-	-	-
Total General Fund	75,199,600	-	75,199,600
Total State Funds	99,375,599	194,738	99,570,337
Federal Funds	1,964,970	-	1,964,970
Total Revenues - GAAP	\$ 101,340,569	194,738	101,535,307

SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NON-MAJOR FUNDS
Year Ended June 30, 2010**

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

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

Native American Fund (10690) - This fund is legally restricted for Native American personal income tax refunds, for Native American veterans who may have been exempt from paying state personal income taxes on their military income, but may have had state personal income taxes withheld from their military income. This fund was statutorily created by Laws of 2009, Chapter 289 via a special appropriation.

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

Capital Improvement Projects Fund (88500) – This fund was created to provide funding for various capital improvement projects.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2010

	<u>Property</u>	<u>Native American</u>	<u>Capital</u>	<u>Total</u>
ASSETS				
Interest in the State Treasurer General Fund				
Investment Pool	\$ 261,543	464,529	(194,738)	531,334
Receivables:				
Due from other state agencies	38	-	194,738	194,776
Loans to counties, net	160,174	-	-	160,174
Total assets	\$ 421,755	464,529	-	886,284
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	26,253	-	26,253
Due to other state agencies	9,774	-	-	9,774
Total liabilities	9,774	26,253	-	36,027
Fund Balances				
Reserved for Native American Refunds		438,276		438,276
Reserved for loans to counties	411,981		-	411,981
Total fund balances	411,981	438,276	-	850,257
Total liabilities and fund balances	\$ 421,755	464,529	-	886,284

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2010

	<u>Property</u>	<u>Native American</u>	<u>Capital</u>	<u>Total</u>
Revenues				
Miscellaneous revenue	\$ -	-	194,738	194,738
Total revenues	-	-	194,738	194,738
Expenditures				
Current expenditures:				
Operating costs	-	461,724	-	461,724
Capital outlay	-	-	194,738	194,738
Total expenditures	-	461,724	194,738	656,462
Excess of revenues over expenditures	-	(461,724)	-	(461,724)
Other Financing Sources				
Reversions	-	-	(6,462)	(6,462)
Transfers to other state agencies	(1,100,000)	(100,000)	-	(1,200,000)
Net other financing sources (uses)	(1,100,000)	(100,000)	(6,462)	(1,206,462)
Net change in fund balance	(1,100,000)	(561,724)	(6,462)	(1,668,186)
Fund balance, June 30, 2009 as previously reported	1,511,981	-	6,462	1,518,443
Addition of new fund	-	1,000,000	-	1,000,000
Fund balances, June 30, 2009 as revised	1,511,981	1,000,000	6,462	2,518,443
Fund balance, June 30, 2010	\$ 411,981	438,276	-	850,257

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES - NATIVE AMERICAN FUND -
BUDGET AND ACTUAL (NON-GAAP BASIS)
Year Ended June 30, 2010

	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other Financial Sources	\$ -	-	-	-
Total revenues	-	-	-	-
Prior year cash budgeted	1,000,000	1,000,000		
	<u>\$ 1,000,000</u>	<u>1,000,000</u>		
Expenditures - current and capital outlay				
Other	\$ 1,000,000	900,000	461,724	438,276
Other Financing Uses	-	100,000	100,000	-
Total expenditures	<u>\$ 1,000,000</u>	<u>1,000,000</u>	<u>561,724</u>	<u>438,276</u>

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
FIDUCIARY FUND TYPES
Year Ended June 30, 2010**

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

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
FIDUCIARY FUND TYPES (CONTINUED)
Year Ended June 30, 2010**

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

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

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
FIDUCIARY FUND TYPES (CONTINUED)
Year Ended June 30, 2010**

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

Collections funds:

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

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

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

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

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

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

Non-Collection funds:

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

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUND TYPE - AGENCY FUNDS
Year Ended June 30, 2010

	Collection Funds		
	CRS Suspense	Personal Income Tax Funds	Corporate Income Tax
ASSETS			
Interest in State General Fund Investment Pool	\$ 268,128,300	52,994,617	56,297,168
Cash on hand and in banks	-	-	-
Receivables:			
Counties, municipalities and fee agents			
Due from State General Fund	58,309,660	29,737,636	26,397,080
Due from other state agencies	-	-	-
Due from taxpayers	414,355,823	62,758,431	62,520,155
Due from Intra-fund programs	-	-	-
Citations			
Tax Assessments	500,430,775	171,403,244	85,235,955
Allowance for uncollectibles	(500,430,775)	(171,403,244)	(85,235,955)
Total assets	\$ 740,793,783	145,490,684	145,214,403
LIABILITIES			
Unidentified tax collections	\$ 3,960,664	39,554,528	45,264,009
Due to state general fund	429,599,331	76,706,481	73,553,061
Due to counties and municipalities	228,816,917	-	-
Due to other state agencies	18,644,732	-	-
Due to external parties	276,029	-	-
Refunds due to taxpayers	58,309,660	28,996,211	26,397,080
Due to other governments	499	13,078	253
Due to Intra-fund programs	1,185,951	220,386	-
Reserve for Litigated Assessments	-	-	-
Total liabilities	\$ 740,793,783	145,490,684	145,214,403

Collection Funds			Non-Collection	Eliminations	Total
TAA Suspense/ Other	Motor Vehicle	Oil and Gas	Other Funds		
S 83,398,340	13,381,181	129,898,624	4,297,533	-	608,395,763
-	2,639,835	-	-	-	2,639,835
-	1,837,576				1,837,576
854,065	1,639,569	29,302,460	-	-	146,240,470
-		28,693,935	-	-	28,693,935
44,952,852	18,457,568	104,561,677	-	-	707,606,506
7,857,699	6,451,613	27,064,801	-	(41,374,113)	-
	25,270,225				25,270,225
80,319,955	-	2,940,360	35,376	-	840,365,665
(80,319,955)	(25,270,225)	(2,940,360)	(35,376)	-	(865,635,890)
S 137,062,956	44,407,342	319,521,497	4,297,533	(41,374,113)	1,495,414,085
27,211,368	1,759,523	34,128,599	1,500,000	-	153,378,691
24,731,432	9,426,213	77,526,067	-	-	691,542,585
7,617,301	2,099,562	25,501,775	-	-	264,035,555
58,995,640	28,046,072	76,001,197	-	-	181,687,641
152,934	1,438,046	-	-	-	1,867,009
5,230,856	1,639,569	73,846,487	2,797,533	-	197,217,396
64	(1,643)	-	-	-	12,251
13,123,361	-	26,844,415	-	(41,374,113)	-
-	-	5,672,957	-	-	5,672,957
S 137,062,956	44,407,342	319,521,497	4,297,533	(41,374,113)	1,495,414,085

SUPPLEMENTAL SCHEDULES

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SUPPLEMENTAL SCHEDULE OF SPECIAL APPROPRIATIONS
Year Ended June 30, 2010

Special Appropriation	Amount Appropriated	Amount Received to Date	Expenditures to Date	Unencumbered Balance	Amount Reverted
General Fund:					
Special appropriation to Taxation & Revenue Department for Native American Settlement, Laws of 2009, Chapter 124, Section 5, Item 6, Non-reverting	\$ 1,000,000	1,000,000	561,724	438,276	-
Special appropriation to Taxation & Revenue Department for the MVD Driver System, Laws of 2008, Chapter 3, Section 7, Item 5, through FY12	4,120,000	4,120,000	431,213	3,688,787	-
Special appropriation to Taxation & Revenue Department for MVD Point of Sale System, Laws of 2008, Chapter 3, Section 7, Item 9, through FY12	2,752,500	2,752,500	2,030,742	721,758	-
Special appropriation to Taxation & Revenue Department, to promote the Managed Audit Program, Laws of 2009, Chapter 124, Section 5, Item 5 through FY10	467,500	467,500	464,622	2,878	2,878
Special appropriation to Taxation & Revenue Department to upgrade Gentax and external data, Laws of 2009, Chapter 124, Section 7, Item 2 through FY11	1,682,500	1,682,500	1,218,122	464,378	-
Special appropriation to Taxation & Revenue Department for tax amnesty program, Laws of 2010 Special Session, Chapter 2, Section 2, Item 3 through FY12	500,000	500,000	83,069	416,931	-
Special appropriation to Taxation & Revenue Department to address computer network and security deficiencies, Laws of 2007, Chapter 28, Section 7, Item 6 through FY10	2,000,000	2,000,000	1,847,249	152,751	152,751
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	497,383	2,617	2,617
Special appropriation to Taxation & Revenue Department to convert integrated database system to DB2, Laws of 2008, Chapter 3, Section 7, Item 4 through FY10	300,000	300,000	260,919	39,081	39,081
Special appropriation to Taxation & Revenue Department to replace imaging equipment, kiosks and eye testing machines, Laws of 2008, Chapter 3, Section 5, Item 19 through FY10	1,000,000	1,000,000	995,636	4,364	4,364
General Fund Total	14,322,500	14,322,500	8,390,679	5,931,821	201,691
Capital Improvement Projects fund:					
Special appropriation through FY11	3,045,000	3,039,738	3,033,276	6,462	6,462
Total Special Appropriations	\$ 17,367,500	17,362,238	11,423,956	5,938,283	208,153

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SUPPLEMENTAL SCHEDULE OF INTER-AGENCY TRANSFERS
Year Ended June 30, 2010

Account Transferred to:	Transfer to:	Account Transferred from:	for	Transfer from:	Net Amount
Department of Finance & Administration /Board of Finance:					
State Debt	80000-341	Oil & Gas Ad Valorem Production	1	71300-333	\$ 5,106,939
State Debt	80000-341	Copper Production Tax Fund	1	71400-333	198,353
State Debt	80000-341	Ad Valorem Equipment Tax Fund	1	71500-333	1,723,292
Children Youth and Families Department:					
CYFD-Children's Trust Fund	78000-660	Transportation & MVD Suspense	1	82500-333	23,420
Department of Cultural Affairs:					
OCA Capital Projects/Laws of 1992	69100-505	CRS TAA Suspense Fund	1	83200-333	307,304
Department of Education:					
Education Department/Driving Safety Fees	57300-924	Transportation & MVD Suspense	1	82500-333	1,495,097
Department of Environment:					
Tire Recycling Fund	02600-667	Transportation & MVD Suspense	1	82500-333	938,292
Water Conservation Fund (WCF)	56700-667	TAA Suspense Fund	1	82800-333	2,676,511
DOE Corrective Action Fund (PPL)	96000-667	TAA Suspense Fund	1	82800-333	18,084,431
Department of Finance and Administration:					
DFA Appropriations - Restitution	85300-341	TRD Restitution Fund	1	23600-333	2,372
DFA Appropriations - CIT	85300-341	CIT TAA Suspense Fund	1	27900-333	59,321,259
DFA Appropriations - PIT	85300-341	PIT TAA Suspense Fund	1	64200-333	434,601,350
DFA Appropriations - Unclaimed Property	85300-341	Unclaimed Property Suspense Fund	1	71000-333	25,854,132
DFA - Juvenile Adjudication Fund	10700-341	Transportation & MVD Suspense	1	82500-333	116,188
DFA Judicial Education Fund	58900-341	Transportation & MVD Suspense	1	82500-333	416,322
DFA Appropriations - MVD	85300-341	Transportation & MVD Suspense	1	82500-333	98,297,895
Local Government E911	01700-341	TAA Suspense Fund	1	82800-333	11,758,718
DFA UNM Cancer Center	23300-341	TAA Suspense Fund	1	82800-333	704,722
Local DWI Grant Program	56000-341	TAA Suspense Fund	1	82800-333	18,320,800
DFA Appropriations - Small Counties	73700-341	TAA Suspense Fund	1	82800-333	6,749,309
DFA Appropriations - TAA	85300-341	TAA Suspense Fund	1	82800-333	127,803,681
County Supported Medicaid Fund	02100-341	CRS TAA Suspense Fund	1	83200-333	18,327,501
DFA Appropriations - CRS TAA	65300-341	CRS TAA Suspense Fund	1	83200-333	2,309,750,544
DFA Appropriations - Oil & Gas	85300-341	Oil & Gas Accounting Suspense	1	83300-333	378,627,756
Energy, Minerals & Natural Resources Department:					
Boat Suspense Fund	77300-521	Transportation & MVD Suspense	1	82500-333	1,595,832
ENNR/ Parks & Recreation Fund	20010-521	TAA Suspense Fund	1	82800-333	23,769
Motor Boat Fuel Tax	30900-521	TAA Suspense Fund	1	82800-333	190,770
NM Youth Conservation Corps	01400-522	CRS TAA Suspense Fund	1	83200-333	3,073,987
EMNRD Capital Projects/ 1994	64800-521	CRS TAA Suspense Fund	1	83200-333	4,303,058
EMNRD - Oil and Gas Reclamation (Oil&Gas)	31100-521	Oil & Gas Accounting Suspense	1	83300-333	1,863,737
Department of Game & Fish:					
Wild Life Plates	30700-516	Transportation & MVD Suspense	1	82500-333	4,820
Department of Health:					
HSD Breast Cancer	06100-655	Transportation & MVD Suspense	1	82500-333	8,330
HSD Child Support	06100-655	Income Tax Suspense Fund	1	81900-333	2,114,393
LTC/ Traumatic Brain Injury Fund	76800-624	Transportation & MVD Suspense	1	82500-333	776,570
DOH Children's Eyesight Fund	26104-665	Transportation & MVD Suspense	1	82500-333	46,884
Department of Public Safety:					
DPS State Police Reg Fund	12805-790	Transportation & MVD Suspense	1	82500-333	300
DPS NMSP Retired (Lic Plate)	12800-790	Transportation & MVD Suspense	1	82500-333	400
Department of Tourism:					
Rt 66 Scenic By-Ways Fund	03000-418	Transportation & MVD Suspense	1	82500-333	3,150
Special Revenues/ Beautification Fund	28200-418	Transportation & MVD Suspense	1	82500-333	1,647,677
General Services Department:					
Handicapped Phone Access Fund	56500-350	TAA Suspense Fund	1	82800-333	3,270,632
Department of Transportation:					
State Road Fund/ MVD	20100-805	Transportation & MVD Suspense	1	82500-333	158,090,645
Highway Infrastructure Fund/ Tire Recycling	20200-805	Transportation & MVD Suspense	1	82500-333	1,940,887
Local Government Road Fund/ MVD	20300-805	Transportation & MVD Suspense	1	82500-333	743,275
Motorcycle Training Fund	20400-805	Transportation & MVD Suspense	1	82500-333	126,574
DWI Prevention & Education Fund	20700-805	Transportation & MVD Suspense	1	82500-333	636,700
Traffic Safety Education & Enforcement Fund	20800-805	Transportation & MVD Suspense	1	82500-333	468,341
State Road Fund - TAA	20100-805	TAA Suspense Fund	1	82800-333	191,536,843
Local Gov Rd Fund- TAA	20300-805	TAA Suspense Fund	1	82800-333	17,507,882
Aviation Board (Gas)	20500-805	TAA Suspense Fund	1	82800-333	391,104
Highway Infrastructure Funds	20200-805	CRS TAA Suspense Fund	1	83200-333	5,366,666
Local Government Road Fund	20300-805	CRS TAA Suspense Fund	1	83200-333	1,788,886
Aviation Board (Jet Fuel)	20500-805	CRS TAA Suspense Fund	1	83200-333	5,562,777
New Mexico Administrative Office of the Courts:					
Jury Fees	01200-218	Transportation & MVD Suspense	1	82500-333	580,940
Court Automation Fund	07800-218	Transportation & MVD Suspense	1	82500-333	1,554,354
Judicial Facilities Fund	53200-218	Transportation & MVD Suspense	1	82500-333	1,094,236
Local Gov Correction Fund	88800-218	Transportation & MVD Suspense	1	82500-333	2,623,420
New Mexico Retiree Health:					
NM Retiree Health Care - Administration	38100-343	CRS TAA Suspense Fund	1	83200-333	16,183,449
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 Accounting Suspense	1	83300-333	214,011
Secretary of the State:					
Public Election Fund	81200-370	Unclaimed Property Suspense Fund	1	71000-333	1,269,000
Office of the State Treasurer:					
Severance Bonding	41000-394	Oil & Gas Accounting Suspense	1	83300-333	350,123,379
Department of Veterans' Services:					
New Mexico VSC/ Armed Forces	78400-670	Income Tax Suspense Fund	1	82500-333	48,580
Workers Compensation Administration:					
Workers' Compensation Fund	98200-632	Workers' Compensation Fund	1	83100-333	11,451,419
					\$ 4,312,377,034

Transfer Purpose

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

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SUPPLEMENTAL SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
Year Ended June 30, 2010

	Balance July 1, 2009	Additions	Deductions	Balance, June 30, 2010
ASSETS				
Interest in State Treasurer General				
Fund Investment Pool	\$ 605,870,458	25,888,451,586	25,885,926,281	608,395,763
Cash on hand and in banks	11,047,700	347,795,805	356,203,670	2,639,835
Certificates of deposit held by State Treasurer	7,977,429	-	7,977,429	-
Receivables:				
Counties and municipalities	-	1,837,576	-	1,837,576
Due from State General Fund	221,379,347	70,490,188	145,629,065	146,240,470
Due from other state agencies	54,724,732	18,754,310	44,785,107	28,693,935
Due from external parties	-	-	-	-
Due from taxpayers	694,122,115	13,484,391	-	707,606,506
Citations	-	25,270,225	-	25,270,225
Tax Assessments	759,130,014	106,505,876	25,270,225	840,365,665
Amounts considered uncollectible	(759,130,014)	56,282,391	162,788,267	(865,635,890)
Total assets	\$ 1,595,121,781	26,528,872,348	26,628,580,044	1,495,414,085
LIABILITIES				
Unidentified tax collections	\$ 103,038,460	18,588,292,459	18,537,952,228	153,378,691
Due to State General Fund	785,334,974	1,928,694,086	2,022,486,475	691,542,585
Due to counties and municipalities	252,916,680	552,721,932	541,603,057	264,035,555
Due to other state agencies	158,938,747	837,412,616	814,663,722	181,687,641
Due to external parties	-	166,910,311	165,043,302	1,867,009
Refunds due to taxpayers	287,146,800	495,700,056	585,629,460	197,217,396
Due to other governments	-	12,251	-	12,251
Other liabilities	2,708,092	6,506,439	9,214,531	-
Reserve for litigated assessments	5,026,028	5,672,957	5,026,028	5,672,957
Funds held in trust for others	12,000	-	12,000	-
Total liabilities	\$ 1,595,121,781	22,581,923,107	22,681,630,803	1,495,414,085

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SUPPLEMENTAL SCHEDULE OF CASH ACCOUNTS
Year Ended June 30, 2010

Interest in the State Treasurer General Fund Investment Pool

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	\$ -	-	-
TRD - Operating Fund	Govt'l	17200 - 333	21,514,069	-	21,514,069
Property Valuation Fund	S R	34800 - 333	261,543	-	261,543
Native American Fund	S R	10690 - 333	464,529	-	464,529
Capital Improvement Project	Capital	88500 - 333	(194,738)	-	(194,738)
Drive MVD	Govt'l	79800 - 333	4,213,030	-	4,213,030
Weight Distance Tax Admin Fee	Govt'l	99400 - 333	952,643	-	952,643
Total governmental funds			27,211,076	-	27,211,076
Fiduciary Funds:					
TRD Restitution Fund	Fiduciary	23600 - 333	946	-	946
Oil and Gas - Ad Valorem Equip. Tax	Fiduciary	23900 - 333	-	-	-
CIT (TAA) Suspense	Fiduciary	27900 - 333	56,297,168	-	56,297,168
PIT (TAA) Suspense	Fiduciary	64200 - 333	50,519,457	277	50,519,734
Hazmat Finger Printing Fees	Fiduciary	68000 - 333	39,750	-	39,750
County and Municipal Gasoline	Fiduciary	68100 - 333	387,142	-	387,142
Small Cities Assistance	Fiduciary	68400 - 333	2,825,659	-	2,825,659
County and Municipal Cigarette	Fiduciary	68300 - 333	-	-	-
Local Liquor Tax Fund	Fiduciary	70900 - 333	28,470	-	28,470
Motor Transportation Cash Bond	Fiduciary	70600 - 333	100,000	-	100,000
Unclaimed Property Suspense	Fiduciary	71000 - 333	4,197,467	-	4,197,467
Oil and Gas - Ad Valorem Prod. Tax	Fiduciary	71300 - 333	-	-	-
Ad Valorem Equipment Tax	Fiduciary	71500 - 333	1,044	-	1,044
Income Tax Suspense	Fiduciary	81900 - 333	2,473,937	-	2,473,937
Transportation & MVD Suspense	Fiduciary	82500 - 333	13,341,431	-	13,341,431
Unidentified Remittance Account	Fiduciary	82700 - 333	349	(283)	66
T.A.A Suspense	Fiduciary	82800 - 333	74,176,686	-	74,176,686
Delinquency List Suspense	Fiduciary	83000 - 333	4,967,471	-	4,967,471
Worker's Compensation Fund	Fiduciary	83100 - 333	1,012,912	-	1,012,912
CRS TAA Suspense - TRIMS	Fiduciary	83200 - 333	268,128,295	5	268,128,300
Oil & Gas Accounting Suspense	Fiduciary	83300 - 333	129,897,580	-	129,897,580
Total fiduciary funds			608,395,764	(1)	608,395,763
Total interest in the State Treasurer Investment Pool			\$635,606,840	(1)	635,606,839

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SUPPLEMENTAL SCHEDULE OF CASH ACCOUNTS (CONTINUED)
Year Ended June 30, 2010

Cash in Banks

As of June 30, 2010, reconciled motor vehicle field office cash in banks (checking accounts) totaled \$104,996 as follows:

Name of Depository	Account Name	Balance per Financial Statements	Bank Balance
First Community Bank (Las Vegas)	NM Taxation & Revenue Department	\$ 4,087	7,985
Bank of Las Vegas	NM Taxation & Revenue Department	-	31,079
Citizen's Bank of Clovis	NM Taxation & Revenue Department	9,090	1,554
Farmers & Stockmens Bank (Clayton)	NM Taxation & Revenue Department	22,988	12,849
Farmers & Stockmens Bank (Clayton)	NM Taxation & Revenue Department	1,781	788
First National Bank of New Mexico	NM Taxation & Revenue Department	12,808	8,524
First National Bank (Alamogordo)	MVD Cloudercroft-15N	6,121	7,345
First State Bank (Socorro)	NM Taxation & Revenue Department	6,955	9,445
My Bank (Belen)	NM Taxation & Revenue Department	7,829	4,831
Western Bank (Lordsburg)	Motor Vehicles Division	13,497	8,386
Western Bank (Lordsburg)	Motor Transportation Department	3,093	9,628
Western Commerce Bank (Carlsbad)	Tatum MVD	3,093	1,836
Western Commerce Bank (Carlsbad)	NM Taxation & Revenue Department	13,654	8,714
Total cash per financial statements		104,996	112,964
Deposits in transit from agents		2,534,839	2,534,839
Outstanding checks and adjustments		-	(7,968)
Total cash in banks		\$ 2,639,835	2,639,835

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 Treasury's Office Collateral Bureau monitors pledged collateral for all state funds held by state agencies in such "authorized" bank accounts.

SINGLE AUDIT

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010

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		\$ 1,288,785
Total U.S. Department of Interior			<u>1,288,785</u>
U.S. Department of Transportation			
CDL Project and Administration	20.232		477,208
Border States Enforcement Grant	20.218		183,855
Federal/State Motor Fuel Tax Compliance Grant	20.240		<u>5,123</u>
Total USDOT Direct Programs			<u>666,186</u>
U. S. Department of Health and Human Services			
NM Organ Donor	93.134		<u>9,999</u>
Total U.S. Department of Health and Human Services			<u>9,999</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,964,970</u></u>

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010**

NOTE 1. 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).

NOTE 2. 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 2 to the Department's governmental fund financial statements.

NOTE 3. 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 2010.

**Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards***

Dorothy Rodriguez, Cabinet Secretary Designate
Honorable Bill Richardson, Governor
Hector H. Balderas, New Mexico State Auditor
Santa Fe, New Mexico

We have audited the 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, 2010, which collectively comprise the Departments basic financial statements and have issued our report thereon dated December 13, 2010. We have also audited the financial statements of the Departments nonmajor governmental and fiduciary funds as presented as supplementary information as of and for the year ended June 30, 2010. 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 financing reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all

Dorothy Rodriguez, Cabinet Secretary Designate
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Santa Fe, New Mexico

deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items 08-02, 09-01, and 09-02. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We also noted an additional matter that is required to be reported under *Government Auditing Standards*, January 2008 Revision paragraphs 5.14 and 5.16 and Section 12-6-5, NMSA 1978 that is described in the accompanying schedule of findings and questioned costs as item 10-01.

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Santa Fe, New Mexico

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.

Mess Adams LLP

Albuquerque, New Mexico
December 13, 2010

**Report on Compliance With Requirements
that Could Have a Direct and Material Affect on
Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133**

Dorothy Rodriguez, Cabinet Secretary Designate
Honorable Bill Richardson, Governor
Hector H. Balderas, New Mexico State Auditor
Santa Fe, New Mexico

Compliance

We have audited the State of New Mexico Taxation and Revenue Department (Department) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Department's major federal programs are identified in the summary of auditor's 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 Department's management. Our responsibility is to express an opinion on 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 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 of Department's compliance with those requirements.

Dorothy Rodriguez, Cabinet Secretary Designate
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Santa Fe, New Mexico

In our opinion, the Department complied, in all material respects, with the requirements referred to above that could have direct and material affect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Dorothy Rodriguez, Cabinet Secretary Designate
Honorable Bill Richardson, Governor
Hector H. Balderas, New Mexico State Auditor
Santa Fe, New Mexico

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.

Mess Adams LLP

Albuquerque, New Mexico
December 13, 2010

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2010**

08-02	Information Technology -- Customized Software and Change Management	Repeated
09-01	Information Technology -- User Account and Identity Management	Repeated
09-02	Internal Control Monitoring for Tax Systems	Repeated

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(s) identified that are not considered to be material weakness(es)? Yes None Reported

Non-compliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(s) identified that are not considered to be material weakness(es) Yes None reported

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

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

Identification of Major Program

CFDA Number	Name of Federal Program or Cluster
15.427	Mineral Management Services, Audits of Oil and Gas Leases

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

Auditee qualified as low-risk auditee? Yes No

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

B. FINDINGS - FINANCIAL STATEMENT AUDIT

08-02 Information Technology – NMWebfile Application Findings

CONDITION

The Department has several custom-developed software systems in place that are responsible for managing significant amounts of financial information. The use of custom-developed software carries inherent risk, in that careful consideration for proper software development life cycle (SDLC) and change management practices are necessary to help ensure the data integrity. Specifically, the ONGARD, MVD, and E-File systems have been built from the ground up. Additionally, the GenTax system is an off-the-shelf system that has been modified to meet specific business needs. In evaluating the Department's software development methodologies, the following findings have been identified by system:

- A. ONGARD. ONGARD uses an underlying database on its mainframe platform that is not transactional in nature, and therefore does not provide the ability to track and roll back changes. Data corrections are occasionally requested, reviewed, approved by management, and are assigned to the database administrator for execution. These changes are tested in a separate environment prior to execution. Yet, the design limitation of this system prevents updates of this nature from being captured in a transaction log where they can be tracked and rolled back if necessary.
- B. MVD. The MVD system that is currently in production continues to undergo maintenance work as software bugs and enhancement needs are identified. These service requests are managed for the most part in a dedicated help desk system – HelpStar. Some requests are submitted by way of Email, which do not get captured in HelpStar. Additionally, the HelpStar system was not able to produce requested samples of service request tickets for inspection during the audit. It was noted during interviews with the MVD team that while stakeholders are tasked with testing changes before they are deployed into production, the specific testing tasks are not being recorded, reviewed, or verified to confirm accuracy and completeness.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

08-02 Information Technology – NMWebfile Application Findings (Continued)

CONDITION (CONTINUED)

- C. POS. NM TRD is in the midst of a significant project to integrate an online point of sale system into its MVD solution. This new solution platform has been designated as “POS”. Project artifacts were provided that demonstrate proper planning and oversight by a dedicated steering committee. Additionally, the project plan calls for unit testing, beta testing, and acceptance testing as expected. Yet, test plans and sign-off by management and stakeholders were not provided during the audit to demonstrate that proper SDLC practices are being followed for this project.

- D. E-File. Significant enhancements to the E-File system targeted for deployment in 2010 include the Cigarette Tax Program, and the Combined Fuel Program. These projects are nearing completion, and are currently in the beta testing and acceptance testing phases, respectively. As mentioned above, SDLC procedures were implemented only recently, in Q1 of 2010. It was noted that project artifacts such as requirements and design specifications for core functionality of these enhancements could not be produced during the audit.

CRITERIA

Best practices as stated in the Control Objectives for Information and related Technology (COBIT) created by the Information Systems Audit and Control Association specify that all changes, including emergency maintenance and patches, relating to infrastructure and applications within the production environment are formally managed in a controlled manner. Changes (including those to procedures, processes, system and service parameters) are logged, assessed and authorized prior to implementation and reviewed against planned outcomes following implementation. This assures mitigation of the risks of negatively impacting the stability or integrity of the production environment. (COBIT A16).

EFFECT

The lack of formal change management procedures may allow the programmer to make either code changes or data changes that are not authorized and could be undetected. Implementation of undocumented and untested program changes into production systems can lead to system stability and data integrity issues.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

08-02 Information Technology – NMWebfile Application Findings (Continued)

CAUSE

While the Department has a formal change management policy in place, underlying processes are still continuing to mature. In the meantime, system managers and project leaders are not maintaining the necessary project artifacts to demonstrate that established software development practices are being followed. All application changes should be supported by documented requirements, design specifications, test cases, and stakeholder approval prior to execution and implementation into the production environment.

RECOMMENDATION

We recommend the Department take additional steps to enforce its change management policy. As part of this process, project artifacts should be periodically reviewed by management, to ensure that items such as documented requirements, design specifications, test plans, implementation plans, and recorded stakeholder approval are included as part of the software development process. In the case of ONGARD, it is recommended that until this platform can be modernized or replaced with a database management system that is transactional in nature, a good compensating control would be to accomplish data corrections of this nature in batches that are accompanied by dedicated database backups.

MANAGEMENT RESPONSE

The Department concurs with this finding, and will take appropriate steps in this direction. We have been emphasizing more formal change management and signoffs for all of our projects, and will continue to do so. Formal signoffs for all deliverables are currently being done and carefully tracked for our MVD Reengineering project. We have also implemented more formal processes for the E-Filing projects. The POS project included unit, beta, and acceptance testing with tracking of each individual issue. This project is now nearing successful completion.

The Department agrees with the recommendation for ONGARD system modernization. Approximately two years ago, we started modernization efforts: our proposals were accepted, a planning effort was completed and initial funding was provided. Unfortunately, even though this activity is a priority it was delayed due to lack of funding at the enterprise level as a direct result of the financial crisis and significant statewide budget shortfalls. As soon as funding for capital projects is again available, we will resubmit revised ONGARD Modernization funding requests. In the meantime, the

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

08-02 Information Technology – NMWebfile Application Findings (Continued)

MANAGEMENT RESPONSE (CONTINUED)

ONGARD team continues to work on improved system efficiency for both the mainframe and server portions of the ONGARD system. The ONGARD team also continues to improve the change management process and we are constantly incorporating additional features that improve our tracking and management of changes.

As it relates to ONGARD’s referenced inability to “track and roll back changes,” there is tracking that is done on a manual basis (through the service request system) for the data changes and rollbacks are handled merely as new data changes. Although this process is not automated, there is a clear manual control that is exercised on these changes. We will continue to document the data changes through the existing process and we will look at opportunities to improve the process and provide a batch update for the PUN events update process.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

09-01 Information Technology – User Account and Identity Management

CONDITION

Security access controls were not tested for many of the in-scope applications and network during the audit period. It was noted that the Tax Fraud Group within the Audit and Compliance Division does monitor and review user access of GenTax records and transactions. However, it is not known if this review includes a full review of user access rights within the system. Additionally it was noted that a review of user accounts was performed for the MVD system as part of reconciling a system issue that occurred, although this type of review is not expected to occur on a regular basis.

Additionally, it was noted that a coordinated notification process for adding, changing, and terminating user access within the ONGARD system was not in place among the various outside departments who access the system. Similarly, for the other in-scope financial applications as well as the network, it was noted that no formalized procedures exist to properly remove employee access from applications and it was noted that not all user accounts are disabled or deleted from the network and applications in a timely fashion.

CRITERIA

Best practices as stated in the Control Objectives for Information and related Technology (COBIT) created by the Information Systems Audit and Control Association specify that Organization's address requesting, establishing, issuing, suspending, modifying and closing user accounts and related user privileges with a set of user account management procedures which should include an approval procedure outlining the data or system owner granting the access privileges. Management should perform regular reviews of all accounts and related privileges to ensure that access is in line with defined and documented business needs. (COBIT DS5.3 & DS5.4)

EFFECT

The lack of standardized procedures for removing system access for terminated employees may allow unauthorized users to access sensitive or mission critical data.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

**09-01 Information Technology – User Account and Identity Management
(Continued)**

CAUSE

The Department does not have a formalized procedure in place for granting and revoking user access security and does not conduct periodic access review. Likewise, there is a lack of notification from Human Resources when an employee has been terminated.

RECOMMENDATION

We recommend that the Department establish a formal process to request, approve and grant user access to key application. In addition, HR should provide timely notifications to ITD of all employee termination and user accounts should be disabled or removed upon receipt of the notification. Finally, it is recommended that the Department establish a formal review of user rights and permissions to key application and privileged network functions.

MANAGEMENT RESPONSE

The Department concurs with this finding. The Department has had a formal process in place for some time using our Security01 form for requesting/approving/granting of access to key applications. The Department's Human Resource Bureau will send email notification to IT when HR receives notification from the Divisions that an employee has left the department. The Department also plans to implement periodic reviews of all accounts for key systems to ensure appropriate access levels and users.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

09-02 Internal Control Monitoring for Tax Systems

CONDITION

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

CRITERIA

Sound systems of internal control require the periodic monitoring of control activities to ensure that the controls are operating effectively.

EFFECT

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

CAUSE

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

RECOMMENDATION

We recommend that the Department develop formal policies and procedures for periodic monitoring of the internal control activities over the tax systems' distributions to beneficiaries and the related allocations. Such monitoring might take the form of an internal audit function.

MANAGEMENT RESPONSE

The Department concurs with this finding, and will implement internal audits over the tax systems' distributions to beneficiaries and the related allocations.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

10-01 Misuse of Special Appropriations

CONDITION

The Department made \$174,000 of expenditures from a special appropriation that was inconsistent with the purpose of the appropriation for FY 09 and made \$36,765.60 in FY 10.

CRITERIA

The appropriation from Laws of 2009, Chapter 3, Section 7, item 8 is appropriated "To convert the integrated database management system to database 2".

EFFECT

This resulted in an under reversion (of the special appropriation) to the State General Fund.

CAUSE

The IT Department was not aware of the requirements related to the special appropriation.

RECOMMENDATION

We recommend that the IT Department implement controls in order to review vouchers and verify they are in compliance with the purpose of any special appropriations they receive.

MANAGEMENT RESPONSE

The Department concurs and has already instituted procedures and controls so that expenditures from special appropriations are reviewed within IT and ASD to ensure compliance with the purpose of any special appropriations.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
EXIT CONFERENCE
Year Ended June 30, 2010**

An exit conference was held with the State of New Mexico Taxation and Revenue Department (Department) on December 9, 2010. The conference was held at the Joseph M. Montoya Bldg. in Santa Fe, New Mexico. In attendance were:

FOR THE DEPARTMENT:

Dorothy "Daffy" Rodriguez, Cabinet Secretary Designate
Wanda Helms, Director, Administrative Services Division
Dorothy Lynch, Deputy Director, Administrative Services Division
JoAnn Chavez, CPA, Financial Distribution Bureau Chief
Bersabe Rodriguez, Financial Services Bureau Chief
Diane Rossbach, Financial Manager

FOR MOSS ADAMS, LLC

Larry Carmony, Partner
Molly Saiz, Supervisor