


**STATE OF NEW MEXICO
TOURISM DEPARTMENT**

**Financial Statements
for the Year Ended
June 30, 2010,
and Independent
Auditors' Report**

STATE OF NEW MEXICO TOURISM DEPARTMENT

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STATE OF NEW MEXICO TOURISM DEPARTMENT

Official Roster

Year Ended June 30, 2010

Hon. Albert Lucero	Chairman
Ms. Selena Chino	Commission Member
Mr. Ted Garcia	Commission Member
Mr. William Hirschfeld	Commission Member
Ms. Deidra Lujan	Commission Member
Mr. Randy Randall	Commission Member
Mr. Jay Christopher Stagg	Commission Member
Mr. Michael Cerletti	Cabinet Secretary
Ms. Jennifer Hobson	Deputy Cabinet Secretary

INDEPENDENT AUDITORS' REPORT

Mr. Michael Cerletti, Cabinet Secretary
State of New Mexico Tourism Department and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the budgetary comparisons for the general fund and major special revenue funds of the State of New Mexico Tourism Department (the 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 also have audited the major capital projects fund and major enterprise funds presented as supplementary information 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and the changes in financial position and, where applicable, cash flows, of only that portion of the government activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not present fairly the financial position of the entire State of New Mexico as of June 30, 2010, and the changes of financial position or, where applicable, its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Mr. Michael Cerletti, Cabinet Secretary
State of New Mexico Tourism Department and
Mr. Hector H. Balderas
New Mexico State Auditor

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Department as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparisons of the major capital projects fund and major enterprise funds for the year ended June 30, 2010 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 November 10, 2010, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 11 are not a required part of the basic financial statements but are required supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The Schedule of Special Appropriations and Schedule of Joint Power Agreements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Special Appropriations and Schedule of Joint Power Agreements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maynard + Company, LLC

November 10, 2010

STATE OF NEW MEXICO TOURISM DEPARTMENT

Management's Discussion and Analysis - Fiscal Year Ended June 30, 2010

The State of New Mexico Tourism Department's (Department) Management Discussion and Analysis (MD&A) is designed to assist the reader in focusing on significant financial issues, provide an overview of the Department's financial activity, identify changes in the Department's financial position (ability to address future year challenges), identify any material deviations from the financial plan and identify any fund issues of concern.

The MD&A is designed to focus on the past year's activities, resulting changes and currently known facts; please read it in conjunction with the Independent Auditors' Report at the front of this report and the Department's financial statements and notes which follow this section.

Overview of the Financial Statements

This audit report consists of four parts: 1) management's discussion and analysis, 2) the basic financial statements, 3) required supplementary information, and 4) a section that presents combining statements for nonmajor governmental funds.

The basic financial statements include two kinds of statements that provide different views of the Department. The first two statements are **government-wide financial statements** that provide both long-term and short-term information about the Department's overall financial status. The remaining statements are **fund financial statements** that focus on individual parts of the Department's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The MD&A should provide an objective and easily readable analysis of the government's financial activities, based on currently known facts, decisions or condition. It should provide an analysis of the government's overall financial position and results of operations to assist users in assessing whether the financial position has improved as a result of the year's activities. Additionally, it should provide an analysis of significant changes that occur in funds and significant budget variances.

Government-wide Financial Statements. The Statement of Net Assets shows the Department's overall financial position as of June 30, 2010. This financial statement is comparable to the balance sheet in a private sector entity's set of financial statements. A Statement of Net Assets differs from a balance sheet in several ways, but there is one main difference. The State of New Mexico Tourism Department is a government agency and a trustee of public assets rather than a company with shareholders or owners. In a private sector balance sheet, the surplus (or deficit) of assets compared to liabilities is the owners' equity. In governmental financial statements, this excess is labeled net assets.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Management's Discussion and Analysis - Fiscal Year Ended June 30, 2010 - continued

Overview of the Financial Statements - continued

Government-wide Financial Statements - continued. The next government-wide statement is the Statement of Activities. This statement provides information about revenue and expenditure activity throughout the course of fiscal year 2010. The statement provides the net assets at the beginning of the year and the balance at the end of the year. The difference between revenue and expenditure amounts provides for the change in net assets.

The remaining financial statements report the Department's operations in greater detail than the government-wide statements.

Fund Financial Statements. The fund financial statements provide more detailed information about the Department's most significant funds. Funds are accounting devices that are used to keep track of specific sources of funding and spending for particular purposes.

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 help 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.

Proprietary Funds – Proprietary funds are used to report the Department's service activities that charge customers a fee. Like the government-wide financial statements, they report all assets (including capital assets), liabilities (short- and long-term), revenues, expenses, gains and losses. They report the services included in the business-type activities in the government-wide financial statements. The Department uses one kind of proprietary fund, **Enterprise Funds**, to account for services provided to external customers.

STATE OF NEW MEXICO TOURISM DEPARTMENT

**Management's Discussion and Analysis -
Fiscal Year Ended June 30, 2010 - continued**

Financial Analysis of the Department as a Whole

Net Assets: Total Department net assets for fiscal year ending June 30, 2010 are \$251,855: \$993,367 in Governmental and \$(741,512) in Business-type activities. The net assets are restricted, mainly for capital projects and special revenues. The unrestricted net assets in Governmental Activities were (\$249,738) and in Business-type activities were \$(741,512) at the end of the fiscal year. The unrestricted net assets are comprised of amounts that have been designated for future use, as these amounts are reserved for operations in the following fiscal years.

The Department's Net Assets

Governmental

	<u>FY 2010</u>	<u>FY2009</u>	<u>Percent Change</u>
Assets:			
Current and Other Assets	\$ 3,478,371	5,625,478	-38%
Capital Assets	<u>108,400</u>	<u>142,107</u>	<u>-24%</u>
Total Assets	3,586,771	5,767,585	-38%
Liabilities:			
Current Liabilities	2,593,404	2,718,224	-5%
Long Term Liabilities Outstanding	<u>-</u>	<u>-</u>	<u>0%</u>
Total Liabilities	2,593,404	2,718,224	-5%
Net Assets:			
Invested in Capital Assets	108,400	142,107	-24%
Restricted	1,134,705	277,196	309%
Unrestricted	<u>(249,738)</u>	<u>2,630,058</u>	<u>-109%</u>
Total Net Assets	\$ <u>993,367</u>	<u>3,049,361</u>	<u>-67%</u>

Business-Type

Assets:			
Current and Other Assets	\$ 576,619	1,347,799	-57%
Capital Assets	<u>-</u>	<u>502</u>	<u>-100%</u>
Total Assets	576,619	1,348,301	-57%
Liabilities:			
Current Liabilities	1,144,272	875,723	31%
Long Term Liabilities Outstanding	<u>173,859</u>	<u>668,560</u>	<u>-74%</u>
Total Liabilities	1,318,131	1,544,283	-15%

STATE OF NEW MEXICO TOURISM DEPARTMENT

**Management's Discussion and Analysis -
Fiscal Year Ended June 30, 2010 - continued**

Financial Analysis of the Department as a Whole - continued

The Department's Net Assets - continued

Business-Type - continued

	<u>FY 2010</u>	<u>FY2009</u>	<u>Percent Change</u>
Net Assets:			
Invested in Capital Assets	\$ -	502	-100%
Restricted	-	-	0%
Unrestricted	<u>(741,512)</u>	<u>(196,484)</u>	<u>-277%</u>
Total Net Assets	\$ <u><u>(741,512)</u></u>	<u><u>(195,982)</u></u>	<u><u>-278%</u></u>

The Department total assets are comprised of \$108,400 in capital assets and \$4,054,990 in other assets, for a total asset balance of \$4,163,390. The overall decrease in total assets from the previous fiscal year is \$2,952,496. Liabilities are also broken out into two segments: current liabilities and non-current liabilities. The total amount of current liabilities is \$3,737,676, a decrease of 4% from the prior year balance of \$3,593,947. Non-current liabilities are limited to the amount of unexpired subscriptions related to New Mexico Magazine subscriptions; the revenue is recognized only when the magazine is published for a given month. Many subscriptions are paid in advance from one to three years and are not likely to be recognized within the next fiscal year. The amount of this non-current liability is \$173,859.

The Department's Activities: The table below summarizes the Department's activities for the fiscal years ending June 30, 2010 and 2009. Total change in net assets from the previous fiscal year was a decrease of \$2,601,524.

Governmental

<u>Category</u>	<u>2010</u>	<u>2009</u>	<u>Total Dollar Change 2009 - 2010</u>	<u>Total Percent Change 2009 - 2010</u>
Program Revenues	\$ -	-	-	0%
General Revenues and Transfers	<u>10,153,471</u>	<u>13,678,853</u>	<u>(3,525,382)</u>	<u>-26%</u>
Total Revenues	10,153,471	13,678,853	(3,525,382)	-26%
Expenses	<u>(12,209,465)</u>	<u>(13,835,988)</u>	<u>(1,626,523)</u>	<u>-12%</u>
Change in Net Assets	(2,055,994)	(157,135)	(1,898,859)	1,208%

STATE OF NEW MEXICO TOURISM DEPARTMENT

**Management's Discussion and Analysis -
Fiscal Year Ended June 30, 2010 - continued**

Financial Analysis of the Department as a Whole - continued

The Department's Activities - continued

Governmental - continued

<u>Category</u>	<u>2010</u>	<u>2009</u>	<u>Total Dollar Change 2009 - 2010</u>	<u>Total Percent Change 2009 - 2010</u>
Net Assets, Beginning	\$ 3,049,361	3,093,096	(43,735)	-1%
Restatement	<u>-</u>	<u>113,400</u>	<u>(113,400)</u>	<u>-100%</u>
Net Assets, Beginning, Restated	<u>3,049,361</u>	<u>3,206,496</u>	<u>(157,135)</u>	<u>-5%</u>
Net Assets, Ending	\$ <u>993,367</u>	<u>3,049,361</u>	<u>(2,055,994)</u>	<u>-67%</u>

Business-Type

<u>Category</u>	<u>2010</u>	<u>2009</u>	<u>Total Dollar Change 2009 - 2010</u>	<u>Total Percent Change 2009 - 2010</u>
Program Revenues	\$ 3,446,152	4,033,270	(587,118)	-15%
General Revenues and Transfers	<u>(25,002)</u>	<u>29,421</u>	<u>(54,423)</u>	<u>-185%</u>
Total Revenues	<u>3,421,150</u>	4,062,691	(641,541)	-16%
Expenses	<u>(3,966,680)</u>	<u>(4,531,801)</u>	<u>(565,121)</u>	<u>-12%</u>
Change in Net Assets	<u>(545,530)</u>	(469,110)	(76,420)	-16%
Net Assets, Beginning	<u>(195,982)</u>	<u>273,128</u>	<u>(469,110)</u>	<u>-172%</u>
Net Assets, Ending	\$ <u>(741,512)</u>	<u>(195,982)</u>	<u>(545,530)</u>	<u>-278%</u>

STATE OF NEW MEXICO TOURISM DEPARTMENT

Management's Discussion and Analysis - Fiscal Year Ended June 30, 2010 - continued

Financial Analysis of the Department as a Whole - continued

The State of New Mexico Tourism Department manages fund accounts that receive funding from sources created in the laws of the State of New Mexico. The cash balance increased in one of the four non-reverting Department's funds, which indicates an increase in fund activity from 2009 and an overall healthy financial position to end the year in 2010.

Information on Individual Funds

The State of New Mexico Tourism Department is responsible for the management of six individual fund accounts. Fund 18800 is considered the Department's general fund. There are three other governmental funds that have operating budgets for specific uses. The Litter Control and Beautification Fund derives its funding from a special beautification fee of \$.50 per vehicle registration. The Trail Safety Fund, which receives its funding from fees associated with off-road vehicle registrations, was transferred to the New Mexico Department of Game and Fish in fiscal year 2010. The Capital Projects Fund receives funding from the NM Legislature for specific purposes related to the enhancement of New Mexico tourism. The two remaining funds are enterprise funds. The New Mexico Magazine Fund generates revenue from operations related to the sale, advertising and promotion of the New Mexico Magazine. The Tourism Enterprise Fund accounts for the sale of advertising and promotional items at the visitor information centers. The table below lists the beginning and ending cash balances for each fund managed by the Department.

<u>Fund Name</u>	<u>Fund Code</u>	<u>Balance June 30, 2010</u>	<u>Balance June 30, 2009</u>	<u>Total Percent of Change 2009 - 2010</u>
General Fund	18800	\$ 2,074,934	3,027,376	-31%
Litter Control and Beautification Fund	26200	\$ 1,157,114	1,036,774	11%
Trail Safety Fund	80400	\$ -	1,310,357	-100%
Capital Projects Fund	82300	\$ 60,294	276,712	-78%
New Mexico Magazine Fund	38200	\$ 270,275	727,825	-63%
Tourism Enterprise Fund	91900	\$ 3,201	58,517	-95%

STATE OF NEW MEXICO TOURISM DEPARTMENT

**Management's Discussion and Analysis -
Fiscal Year Ended June 30, 2010 - continued**

Information on Individual Funds - continued

The tables below list the total revenue (including other financing sources and uses) and expenditures for each fund managed by the Department.

<u>Fund Name</u>	<u>Fund Code</u>	<u>Revenue</u>		<u>Total Percent of Change 2009 - 2010</u>
		<u>Fiscal Year Ended June 30, 2010</u>	<u>Fiscal Year Ended June 30, 2009</u>	
General Fund	18800	\$ 11,099,581	12,277,308	-10%
Litter Control and Beautification Fund	26200	993,061	979,659	1%
Trail Safety Fund	80400	-	789,615	-100%
Capital Projects Fund	82300	-	97,000	-100%
New Mexico Magazine Fund	38200	3,420,326	3,993,985	-14%
Tourism Enterprise Fund	91900	<u>25,826</u>	<u>68,741</u>	<u>-62%</u>
Total Revenues		\$ <u>15,538,794</u>	<u>18,206,308</u>	<u>-15%</u>

<u>Fund Name</u>	<u>Fund Code</u>	<u>Expenditures</u>		<u>Total Percent of Change 2009 - 2010</u>
		<u>Fiscal Year Ended June 30, 2010</u>	<u>Fiscal Year Ended June 30, 2009</u>	
General Fund	18800	\$ 11,746,897	12,422,670	-5%
Litter Control and Beautification Fund	26200	862,528	901,845	-4%
Trail Safety Fund	80400	1,333,709	327,169	308%
Capital Projects Fund	82300	171,447	597,190	-71%
New Mexico Magazine Fund	38200	3,922,273	4,480,996	-12%
Tourism Enterprise Fund	91900	<u>69,409</u>	<u>50,840</u>	<u>-37%</u>
Total Expenses		\$ <u>18,106,263</u>	<u>18,780,710</u>	<u>-4%</u>

Budget Comparisons

The Department recorded several adjustments to the original budget amounts during the fiscal year. In total, the expenditures in the general fund were more than budget by approximately \$105,686.

The Department has several funds that generate the majority of its revenues via dedicated, non-reverting funds; there is little incentive to spend all available funds to justify higher future budgets. Funds that remain unspent remain in the fund's cash balance. These funds then will be available for appropriation and expenditure in future fiscal years.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Management's Discussion and Analysis - Fiscal Year Ended June 30, 2010 - continued

Capital Assets and Long-term Debt Activity

The net value of the Department's capital assets as of June 30, 2010 is \$108,400 and \$0 for the governmental and enterprise activities, respectively. For their governmental activities, the Department acquired no capital asset additions during the year and had approximately \$120,000 of disposals. The Department's enterprise funds had no additions during the year but disposed of approximately \$28,000 of assets.

The Department has no long-term debt activity during fiscal year 2010. Long-term liabilities recorded for the Department consist of long-term, unexpired magazine subscriptions.

Anticipated Future Conditions and Changes

In fiscal year 2011 the Department requested budget authority as a whole of \$16,671,800. Due to uncertainty in state revenues the Office, per state instructions submitted a flat budget request for fiscal year 2011. However, in fiscal year 2011, the budget authority granted and received was \$15,133,800; the decrease was a result of legislatively mandated reductions that resulted in a decrease in the personnel services budget category.

Contacting the Department's Financial Management

The Department's financial statements are designed to provide our constituents and stakeholders with a general overview of the Tourism Department's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, contact the Department's Administrative Services Division Director at Lamy Building, 491 Old Santa Fe Trail, Santa Fe, NM 87501.

FINANCIAL STATEMENTS

STATE OF NEW MEXICO TOURISM DEPARTMENT

Statement of Net Assets

AS OF JUNE 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Investment in State General Fund Investment Pool	\$ 3,292,342	273,476	3,565,818
Due from other agencies	97,627	-	97,627
Receivables, net	-	196,839	196,839
Prepaid expenses	84,313	2,100	86,413
Inventories	<u>4,089</u>	<u>104,204</u>	<u>108,293</u>
Total current assets	3,478,371	576,619	4,054,990
Non-current:			
Capital assets	202,204	5,904	208,108
Less accumulated depreciation	<u>(93,804)</u>	<u>(5,904)</u>	<u>(99,708)</u>
Total non-current assets	<u>108,400</u>	<u>-</u>	<u>108,400</u>
TOTAL ASSETS	\$ <u>3,586,771</u>	<u>576,619</u>	<u>4,163,390</u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
Accounts payable	\$ 1,775,821	45,583	1,821,404
Accrued payroll and related liabilities	176,659	68,409	245,068
Due to other state agencies	-	10,396	10,396
Due to State General Fund	391,186	-	391,186
Deferred revenue	-	79,261	79,261
Compensated absences, current	249,738	71,175	320,913
Unexpired subscriptions, current	<u>-</u>	<u>869,448</u>	<u>869,448</u>
Total current liabilities	2,593,404	1,144,272	3,737,676
Long-term liabilities:			
Unexpired subscriptions, long-term	<u>-</u>	<u>173,859</u>	<u>173,859</u>
TOTAL LIABILITIES	2,593,404	1,318,131	3,911,535
NET ASSETS:			
Invested in capital assets	108,400	-	108,400
Restricted for:			
Prepaid expenses	84,313	-	84,313
Inventories	4,089	-	4,089
Capital projects	105,749	-	105,749
Special revenue funds	940,554	-	940,554
Unrestricted deficit	<u>(249,738)</u>	<u>(741,512)</u>	<u>(991,250)</u>
TOTAL NET ASSETS	<u>993,367</u>	<u>(741,512)</u>	<u>251,855</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>3,586,771</u>	<u>576,619</u>	<u>4,163,390</u>

YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions
GOVERNMENTAL ACTIVITIES:			
Tourism	\$ 12,209,465	-	-
TOTAL GOVERNMENTAL ACTIVITIES	12,209,465	-	-
BUSINESS-TYPE ACTIVITIES:			
Publishing	3,966,680	3,446,152	-
TOTAL BUSINESS-TYPE ACTIVITIES	3,966,680	3,446,152	-
TOTAL PRIMARY GOVERNMENT	\$ 16,176,145	3,446,152	-

General revenues:

- Beautification fee
- Loss on the disposal of capital assets
- Miscellaneous

Transfers:

- Reversion to the State General Fund FY10
- State general fund appropriation
- Intra-agency transfers, net
- Other State agency transfers, net

Total general revenues and transfers

Change in net assets

Beginning net assets

Ending net assets

STATE OF NEW MEXICO TOURISM DEPARTMENT

Statement of Activities

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets		Total
	Governmental Activities	Business-type Activities	
-	(12,209,465)	-	(12,209,465)
-	(12,209,465)	-	(12,209,465)
-	-	(520,528)	(520,528)
-	-	(520,528)	(520,528)
-	(12,209,465)	(520,528)	(12,729,993)
	\$ 992,112	-	992,112
	(4,886)	-	(4,886)
	1,328	-	1,328
	(585,576)	-	(585,576)
	11,074,200	-	11,074,200
	25,002	(25,002)	-
	(1,348,709)	-	(1,348,709)
	10,153,471	(25,002)	10,128,469
	(2,055,994)	(545,530)	(2,601,524)
	3,049,361	(195,982)	2,853,379
	\$ 993,367	(741,512)	251,855

STATE OF NEW MEXICO TOURISM DEPARTMENT

Balance Sheet - Governmental Funds

AS OF JUNE 30, 2010

	Major Funds				Total Governmental Funds
	General Fund 18800	Litter Control and Beautification Fund 26200	Trail Safety Fund 80400	Capital Projects Fund 82300	
ASSETS:					
Investment in State General Fund					
Investment Pool	\$ 2,074,934	1,157,114	-	60,294	3,292,342
Due from other funds	-	-	-	50,000	50,000
Due from other agencies	-	97,627	-	-	97,627
Prepaid expenses	84,047	266	-	-	84,313
Inventories	4,089	-	-	-	4,089
TOTAL ASSETS	\$ 2,163,070	1,255,007	-	110,294	3,528,371
LIABILITIES:					
Accounts payable	\$ 1,464,397	306,879	-	4,545	1,775,821
Accrued payroll and related liabilities	169,351	7,308	-	-	176,659
Due to other funds	50,000	-	-	-	50,000
Due to State General Fund	391,186	-	-	-	391,186
TOTAL LIABILITIES	2,074,934	314,187	-	4,545	2,393,666
FUND BALANCES:					
Reserved:					
Prepaid expenses	84,047	266	-	-	84,313
Inventories	4,089	-	-	-	4,089
Capital projects	-	-	-	105,749	105,749
Special revenue funds	-	940,554	-	-	940,554
TOTAL FUND BALANCES	88,136	940,820	-	105,749	1,134,705
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,163,070	1,255,007	-	110,294	3,528,371

STATE OF NEW MEXICO TOURISM DEPARTMENT

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

YEAR ENDED JUNE 30, 2010

Total Fund Balance - Governmental Funds
(Governmental Fund Balance Sheet) \$ 1,134,705

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

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the funds.

The cost of capital assets is: 202,204
Accumulated depreciation is: (93,804)

Total capital assets 108,400

Long-term and certain other liabilities, such as compensated absences,
are not due and payable in the current period and therefore are
not reported as liabilities in the funds. (249,738)

Net assets of governmental activities (Statement of Net Assets) \$ 993,367

STATE OF NEW MEXICO TOURISM DEPARTMENT

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

YEAR ENDED JUNE 30, 2010

	Major Funds				Total Governmental Funds
	General Fund 18800	Litter Control and Beautification Fund 26200	Trail Safety Fund 80400	Capital Projects Fund 82300	
REVENUES:					
Beautification fee	\$ -	992,112	-	-	992,112
Off-highway vehicle fee	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	379	949	-	-	1,328
TOTAL REVENUES	379	993,061	-	-	993,440
EXPENDITURES:					
Tourism	11,164,886	862,528	-	152,882	12,180,296
Capital outlay	-	-	-	-	-
TOTAL EXPENDITURES	11,164,886	862,528	-	152,882	12,180,296
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(11,164,507)	130,533	-	(152,882)	(11,186,856)
OTHER FINANCING SOURCES (USES):					
State General Fund appropriations	11,074,200	-	-	-	11,074,200
Special appropriations	-	-	-	-	-
Intra-agency transfers, net	25,002	-	-	-	25,002
Other State agency transfers, net	(15,000)	-	(1,333,709)	-	(1,348,709)
Reversion to State General Fund 2010 fiscal year	(567,011)	-	-	(18,565)	(585,576)
TOTAL OTHER FINANCING SOURCES (USES)	10,517,191	-	(1,333,709)	(18,565)	9,164,917
NET CHANGE IN FUND BALANCE	(647,316)	130,533	(1,333,709)	(171,447)	(2,021,939)
BEGINNING FUND BALANCE	735,452	810,287	1,333,709	277,196	3,156,644
ENDING FUND BALANCE	\$ 88,136	940,820	-	105,749	1,134,705

STATE OF NEW MEXICO TOURISM 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) \$ (2,021,939)

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

In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The increase in the liabilities for the fiscal year was: (348)

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts were:

Capital outlay	-
Depreciation expense	<u>(28,821)</u>
Excess of capital outlay over depreciation expense	(28,821)

The Statement of activities reports the loss on the sale of equipment, while the Statement of Revenues, Expenditures and Changes in Fund Balance reports the proceeds. The reconciling amount is the difference: (4,886)

Change in net assets of governmental activities (Statement of Activities) \$ (2,055,994)

STATE OF NEW MEXICO TOURISM DEPARTMENT

Statement of Revenues and Expenditures -
Major Governmental Funds -
Budget and Actual (Modified Accrual Budgetary GAAP Basis)

YEAR ENDED JUNE 30, 2010

	GENERAL FUND 18800			
	Budgeted Amounts		Actual Amounts	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
State General Fund appropriations	\$ 11,074,200	11,074,200	11,074,200	-
Other state funds	-	-	-	-
Interest income	-	-	-	-
Miscellaneous	-	-	379	379
Other financing sources	-	-	<u>25,002</u>	<u>25,002</u>
TOTAL REVENUES	<u>11,074,200</u>	<u>11,074,200</u>	<u>11,099,581</u>	<u>25,381</u>
EXPENDITURES:				
Personnel services/benefits	3,427,900	3,757,050	3,899,411	(142,361)
Contractual services	987,700	1,083,550	1,059,772	23,778
Other	6,638,600	6,218,600	6,205,703	12,897
Other financing uses	<u>20,000</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
TOTAL EXPENDITURES	<u>11,074,200</u>	<u>11,074,200</u>	<u>11,179,886</u>	<u>(105,686)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	\$ <u>-</u>	<u>-</u>	(80,305)	<u>(80,305)</u>
NON-BUDGETED RECONCILING ITEMS				
Reversions to State General Fund			<u>(567,011)</u>	
NET CHANGE IN FUND BALANCE			\$ <u>(647,316)</u>	

STATE OF NEW MEXICO TOURISM DEPARTMENT

Statement of Revenues and Expenditures -
Major Governmental Funds -

Budget and Actual (Modified Accrual Budgetary GAAP Basis) - continued

YEAR ENDED JUNE 30, 2010

	LITTER CONTROL & BEAUTIFICATION FUND 26200			
	Budgeted Amounts		Actual Amounts	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
State General Fund appropriations	\$ -	-	-	-
Other state funds	1,072,200	1,072,200	992,112	(80,088)
Federal grant	-	-	-	-
Miscellaneous	-	33,000	949	(32,051)
TOTAL REVENUES	1,072,200	1,105,200	993,061	(112,139)
EXPENDITURES:				
Personnel services/benefits	99,700	132,700	124,739	7,961
Contractual services	151,000	151,000	121,058	29,942
Other	821,500	821,500	616,731	204,769
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	1,072,200	1,105,200	862,528	242,672
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER EXPENDITURES AND OTHER FINANCING SOURCES (USES))	\$ -	-	130,533	130,533

STATE OF NEW MEXICO TOURISM DEPARTMENT

Statement of Revenues and Expenditures -
Major Governmental Funds -

Budget and Actual (Modified Accrual Budgetary GAAP Basis) - continued

YEAR ENDED JUNE 30, 2010

		TRAIL SAFETY FUND 80400			
		Budgeted Amounts		Actual Amounts	Variance From Final Budget Positive (Negative)
		Original	Final		
REVENUES:					
State General Fund appropriations	\$	-	-	-	-
Other state funds		-	-	-	-
Interest Income		-	-	-	-
Miscellaneous		-	-	-	-
TOTAL REVENUES		-	-	-	-
EXPENDITURES:					
Personnel services/benefits		-	-	-	-
Contractual services		-	-	-	-
Other		-	-	-	-
Other financing uses		-	-	1,333,709	(1,333,709) *
TOTAL EXPENDITURES		-	-	1,333,709	(1,333,709)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER EXPENDITURES AND OTHER FINANCING SOURCES (USES))					
	\$	-	-	(1,333,709)	(1,333,709)

* Transfer of assets per the Laws of 2009, Chapter 13, to another state agency (see Note 1). The transfer was a non-budgeted transaction.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Statement of Net Assets - Proprietary Funds

AS OF JUNE 30, 2010

	Business-Type Activities		Total
	New Mexico Magazine 38200	Tourism Enterprise 91900	
ASSETS:			
Current:			
Investment in State General Fund Investment Pool	\$ 270,275	3,201	273,476
Accounts Receivable, net	196,839	-	196,839
Inventories	82,424	21,780	104,204
Prepaid postage	<u>2,100</u>	<u>-</u>	<u>2,100</u>
Total current assets	551,638	24,981	576,619
Non-current:			
Capital assets	5,904	-	5,904
Less accumulated depreciation	<u>(5,904)</u>	<u>-</u>	<u>(5,904)</u>
Total non-current assets	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	\$ <u>551,638</u>	<u>24,981</u>	<u>576,619</u>
LIABILITIES:			
Current:			
Accounts payable	\$ 45,583	-	45,583
Accrued payroll and related liabilities	68,409	-	68,409
Due to other state agencies	9,694	702	10,396
Deferred revenue	79,261	-	79,261
Unexpired subscriptions, current	869,448	-	869,448
Compensated absences, current	<u>71,175</u>	<u>-</u>	<u>71,175</u>
Total current liabilities	1,143,570	702	1,144,272
Non-current:			
Unexpired subscriptions, long-term	<u>173,859</u>	<u>-</u>	<u>173,859</u>
Total non-current liabilities	<u>173,859</u>	<u>-</u>	<u>173,859</u>
TOTAL LIABILITIES	1,317,429	702	1,318,131
NET ASSETS:			
Invested in capital assets	-	-	-
Unrestricted	<u>(765,791)</u>	<u>24,279</u>	<u>(741,512)</u>
TOTAL NET ASSETS	<u>(765,791)</u>	<u>24,279</u>	<u>(741,512)</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>551,638</u>	<u>24,981</u>	<u>576,619</u>

STATE OF NEW MEXICO TOURISM DEPARTMENT

**Statement of Revenues, Expenses and Changes
in Fund Net Assets - Proprietary Funds**

YEAR ENDED JUNE 30, 2010

	<u>Business-Type Activities</u>		<u>Total</u>
	<u>New Mexico Magazine 38200</u>	<u>Tourism Enterprise 91900</u>	
OPERATING REVENUES			
Charges for services:			
New Mexico Magazine	\$ 3,413,650	-	3,413,650
By-product sales	-	20,511	20,511
Miscellaneous	<u>6,676</u>	<u>5,315</u>	<u>11,991</u>
 Total operating revenues	 3,420,326	 25,826	 3,446,152
 Operating expenses:			
Personal services	1,205,055	-	1,205,055
Contractual services	720,303	-	720,303
Other costs	1,996,413	44,407	2,040,820
Depreciation expense	<u>502</u>	<u>-</u>	<u>502</u>
 Total operating expenses	 <u>3,922,273</u>	 <u>44,407</u>	 <u>3,966,680</u>
 OPERATING LOSS	 (501,947)	 (18,581)	 (520,528)
 NON-OPERATING REVENUES (EXPENSES)			
Intra-agency transfers, net	<u>-</u>	<u>(25,002)</u>	<u>(25,002)</u>
 TOTAL NON-OPERATING REVENUES (EXPENSES)	 -	 (25,002)	 (25,002)
 CHANGE IN NET ASSETS	 (501,947)	 (43,583)	 (545,530)
 TOTAL NET ASSETS, BEGINNING	 <u>(263,844)</u>	 <u>67,862</u>	 <u>(195,982)</u>
 TOTAL NET ASSETS, ENDING	 \$ <u><u>(765,791)</u></u>	 <u><u>24,279</u></u>	 <u><u>(741,512)</u></u>

STATE OF NEW MEXICO TOURISM DEPARTMENT

Statement of Cash Flows - Proprietary Funds

YEAR ENDED JUNE 30, 2010

	Business-Type Activities		Total
	New Mexico	Tourism	
	Magazine 38200	Enterprise 91900	
CASH FLOWS FROM (USED BY)			
OPERATING ACTIVITIES:			
Receipts from customers	\$ 3,631,739	25,826	3,657,565
Payments to suppliers	(2,869,227)	(56,140)	(2,925,367)
Payments to employees	<u>(1,220,062)</u>	<u>-</u>	<u>(1,220,062)</u>
NET CASH USED BY OPERATING ACTIVITIES	(457,550)	(30,314)	(487,864)
CASH FLOWS FROM (USED BY) NON-CAPITAL			
FINANCING ACTIVITIES:			
Transfers	<u>-</u>	<u>(25,002)</u>	<u>(25,002)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(457,550)	(55,316)	(512,866)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>727,825</u>	<u>58,517</u>	<u>786,342</u>
CASH AND CASH EQUIVALENTS, ENDING	\$ <u>270,275</u>	<u>3,201</u>	<u>273,476</u>
RECONCILIATION OF OPERATING INCOME (LOSS)			
TO NET CASH PROVIDED (USED) BY			
OPERATING ACTIVITIES:			
Operating loss	\$ (501,947)	(18,581)	(520,528)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	502	-	502
Bad debt expense	73,053	-	73,053
Change in assets and liabilities:			
Receivables, net	(86,326)	-	(86,326)
Due from other funds	290,507	-	290,507
Inventories	(23,877)	4,956	(18,921)
Prepaid expenses	1	-	1
Accounts and other payables	(24,207)	(14,437)	(38,644)
Deferred revenue	7,232	-	7,232
Accrued payroll and compensated absences	(15,007)	(2,373)	(17,380)
Unexpired subscriptions	(179,166)	-	(179,166)
Due to other state agencies	<u>1,685</u>	<u>121</u>	<u>1,806</u>
NET CASH USED BY OPERATING ACTIVITIES	\$ <u>(457,550)</u>	<u>(30,314)</u>	<u>(487,864)</u>

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements

NATURE OF ORGANIZATION

The Tourism Department (the Department) was established by the Tourism Department Act, effective July 1, 1991, in the Laws of 1991, Senate Bill 228 enacted by the legislature of the State of New Mexico. The purposes of the Department are as follows:

- To provide a coordinated, statewide perspective with regard to tourism activities;
- To provide a database for local and regional tourism groups and serve as a comprehensive source of information and assistance to tourism-related businesses wishing to locate, expand or do business in New Mexico;
- To monitor the progress of state-supported tourism activities and prepare annual reports of such activities, their status and their impact;
- To add to and coordinate existing litter control and removal efforts. NMSA Chapter 67, Article 16, created the Litter Control & Beautification Fund as part of the Litter Control and Beautification Act. On April 3, 2001, Governor Gary Johnson signed House Bill 338; which transferred the Litter Control and Beautification funding and coordination efforts from the New Mexico State Highway and Transportation Department to the New Mexico Tourism Department; and

The Department consists of (but is not limited to) the following programs:

- Marketing & Promotion Program
 - Tourism Enterprise
 - Outreach Program
 - Program Support Program
 - New Mexico Magazine Program
 - Special Revenue Program
 - Trail Safety Fund
 - Sports Authority
- **NMSA 9-15A-8. Tourism commission created: membership, administratively attached to the Department**

The chief executive and administrative officer of the Department is the secretary, who is appointed by the governor with the consent of the senate, serves in the executive cabinet, and holds office at the pleasure of the governor. The secretary appoints the directors of the programs.

- A. The “tourism commission” is created. The commission shall be a planning commission administratively attached to the Department. The commission shall provide advice to the Department on policy matters. The commission shall be responsible for the annual approval and update of the state's five-year tourism plan. The commission shall consist of seven members who shall be qualified electors of the state of New Mexico, no more than four of whom, at the time of their appointment, shall be members of the

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements - continued

NATURE OF ORGANIZATION - continued

same political party and at least one of whom shall be a Native American. Members shall be appointed by the governor and confirmed by the senate. Two members shall be appointed from each of the three congressional districts. One member shall be appointed from the state at large.

- B. Appointments shall be made for seven-year terms expiring on January 1 of the appropriate year. Commission members shall serve staggered terms as determined by the governor at the time of their initial appointment annually. The governor shall designate a chairman of the commission from among the members.
- C. The commission shall meet at the call of the chairman, not less than once each quarter, and shall invite representatives of appropriate legislative committees, other state agencies and interested persons to its meetings for the purpose of information exchange and coordination.
- D. Commission members shall not vote by proxy. A majority of the members constitutes a quorum for the conduct of business.
- E. Members of the commission shall not be removed except for incompetence, neglect of duty or malfeasance in office. Provided, however, no removal shall be made without notice of hearing and an opportunity to be heard having first been given the member being removed. The senate shall be given exclusive original jurisdiction over proceedings to remove members of the commission under such rules as it may promulgate. The senate's decision in connection with such matters shall be final. A vacancy in the membership of the commission occurring other than by expiration of term shall be filled in the same manner as the original appointment, but for the unexpired term only.
- F. Commission members shall not be paid, but shall receive per diem and mileage as provided in the Per Diem and Mileage Act [10-8-1 to 10-8-8 NMSA 1978].

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standard Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The Department implemented the provisions of GASB No. 34 effective July 1, 2001. As a part of this statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, etc.). The Department does not own any infrastructure assets and, therefore, is unaffected by this requirement.

- **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". The primary government is any state government 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.

The Department is a "department" of the State of New Mexico and will be included in any statewide Comprehensive Annual Financial Report. In accordance with the criteria set forth in GASB 14 (amended by GASB 39) for determining component units, the Department does not have any component units.

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

The basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements. The new reporting model focus is on either the Department as a whole, or major individual funds (within the fund financial statements). In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net costs that are being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. The Department reports two functions in the government-wide financial statements: the governmental activities (Tourism) and business-type activities (Publishing). Program revenues consist of the following:

Governmental activities – Tourism fees

Proprietary activities – Advertising, subscriptions and merchandise sales

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

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

The net cost (by function or business-type activity) is normally covered by general revenues (taxes, intergovernmental revenues, interest income, etc.). Historically, the previous model did not summarize or present net cost by function or activity. The Department does not currently employ indirect cost allocation systems.

This government-wide focus is more on the sustainability of the Department as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

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 governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Department's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund-based financial statements into the governmental column on the government-wide presentation.

The Department does not have any fiduciary funds nor component units that are fiduciary in nature. By definition, assets in a fiduciary fund are held for the benefit of a third party and cannot be used to address activities or obligations of the government. These funds would not be incorporated into the government-wide statements.

The financial transactions of the Department are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements. GASB No. 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation – Fund Accounting**

The Department uses the following fund types:

Governmental Funds – The focus of governmental funds; measurement (in fund statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income.

General Fund. The General Fund (SHARE Fund 18800) is the general operating fund of the Department and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is reverting per the Tourism Department Act. (Major fund)

Special Revenue Funds.

The Litter Control & Beautification Fund (SHARE Fund 26200) is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The fund is non-reverting per Section 67-16-1 NMSA 1978. (Major fund) The special revenue programs are:

Scenic Byways Programs – To develop a statewide byway Marketing and Promotion Plan (MPP). The MPP will define the marketing goals, objectives, strategies and action plans, including the development of promotional themes for New Mexico’s scenic byways. The designation of the scenic byways as special revenue funds is by federal mandate.

Litter Control & Beautification – Created by Section 67-16-1 NMSA 1978 to accomplish litter control by eliminating litter from the state. The program shall establish a statewide “Keep America Beautiful” program. The program awards grants to cities and counties to develop statewide litter and solid waste reduction programs; and grants to local governments to establish summer youth employment programs to aid in litter control and beautification projects, and to conduct a public awareness and media campaign. Financing is provided from a special beautification fee of \$.50 per vehicle registration. The revenue is recognized in the period in which the registrations are purchased by users.

Trail Safety Fund (SHARE Fund 80400) – Created by amendment to the Off-Highway Motor Vehicle Act, Laws of 2005, Chapter 325 (Senate Bill 252). The fees collected from off-road vehicle registrations are to be used to develop and maintain trails, build and maintain staging areas, market safety programs and promote safety for off-highway motor

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation – Fund Accounting - continued**

Governmental Funds - continued

Special Revenue Funds - continued

Trail Safety Fund (SHARE Fund 80400) – continued.

vehicles. This fund was transferred to the New Mexico Department of Game and Fish (Agency #51600, Fund 10480) during fiscal year 2010 (Major Fund).

Capital Projects Fund. The Capital Projects Fund (SHARE Fund 82300) is used to account for financial resources to be used for the acquisition or construction of major facilities (other than those financed by business-type/proprietary funds) or multi-year appropriations. The fund reverts based on the applicable provisions of special appropriations (Major Fund).

Proprietary Funds – The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The funds are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The following is a description of the proprietary funds of the Department:

Enterprise Funds. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services. The enterprise funds in use by the Department are as follows:

New Mexico Magazine (SHARE Fund 38200) – To account for the resources and uses required to publish and distribute the New Mexico Magazine. This fund is non-reverting. (Major Fund)

Tourism Enterprise (SHARE Fund 91900) – To account for the sale of advertising and promotional items at visitor centers. This fund is non-reverting. (Major Fund)

GASB No. 34 permits enterprise funds only to apply all Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements. The management of the Department has elected not to follow new FASB pronouncements for the enterprise funds and government-wide financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Measurement Focus and Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditure/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. Expenditures are paid out of unrestricted funds unless specifically designated for restricted funds.

The Government-wide Financial Statements are presented on an accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on a modified accrual basis.

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.

• Accrual

Revenues are recognized when earned and expenses are recognized when incurred.

• Modified Accrual

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, normally within 60 days of year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

In applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to GASB No. 33 (as it relates to non-exchange and exchange transactions), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

• Budgets and Budgetary Accounting

The State Legislature makes annual appropriations to the Department's General Fund. Legal compliance is monitored through the establishment of a budget and a financial control system that permits a budget to actual expenditure comparison.

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

• **Budgets and Budgetary Accounting - continued**

Expenditures by category may not legally exceed appropriations. Budgeted line-item classifications may be amended upon approval from the State Budget Division. The basis of accounting for the budget, as appropriated by the State Legislature and approved by the State Budget Division, differs from the basis of accounting required by GAAP.

Per the General Appropriation Act, Laws of 2007, Chapter 28, Section 3, item N, “For the purpose of administering the General Appropriation Act of 2008 and approving operation budgets, the state of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration.” The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget. Encumbrances related to single year appropriations lapse at the year end. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget. The legal level of budgetary control should be disclosed. There are no encumbrances outstanding at year-end.

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

- No later than September 1, the Department submits to the Legislative Finance Committee (LFC), and the Budget Division of the Department of Finance and Administration (DFA), an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.
- Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of those hearings is incorporated into the State's General Appropriation Act.
- The Act is signed into Law by the Governor of the State of New Mexico within the legally prescribed time limit, at which time the approved budget becomes a legally binding document.
- Not later than May 1, the Department submits to DFA an annual operating budget by appropriation unit and object code based upon the appropriation made by the Legislature. The DFA-Budget Division reviews and approves the operating budget, which becomes effective on July 1.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Budgets and Budgetary Accounting - continued**

- Formal budgetary integration is employed as a management control device during the fiscal year for the General and Special Revenue funds.
- During the fiscal year under audit actual expenditures exceeded budgeted expenditures at the legal level of compliance for some categories in some funds. See finding 08-04 in the Schedule of Findings and Responses for more information.

- **Cash and Cash Equivalents**

The Department has defined cash and cash equivalents to include investments with the State Treasurer General Fund Investment Pool, cash on hand and demand deposits. All cash is deposited with and monitored by the State Treasurer. See Note 2 for additional investment disclosure.

- **Accounts Receivable**

Accounts receivable are due from advertisers and subscribers to the New Mexico Magazine and are recorded in the enterprise fund for New Mexico Magazine. New Mexico Statute does not allow state agencies to write off bad debt and, as a result, much of the balance in accounts receivable is old and deemed uncollectible. Management estimates an allowance for doubtful accounts based on a percentage of outstanding accounts receivable, based on management's estimate of the collectability. For the fiscal year ended June 30, 2010, management estimated 20% of subscriptions accounts receivable and 85% of advertising accounts receivable would be uncollectible.

- **Capital Assets**

Capital Assets consist of acquired assets with an original cost of \$5,000 or more and an estimated useful life greater than one year per Section 12-6-10 NMSA 1978. The Department records assets (such as furniture and fixtures, equipment and data processing equipment including software) purchased at cost or, if contributed, at fair market value at date of donation. The Department is capitalizing and depreciating computer software developed for internal use. Repairs and maintenance expenses are charged to operations when incurred and major improvements and replacements are capitalized.

In fiscal year 2006, the capitalization policy changed from \$1,000 to \$5,000 for capitalizing capital assets. The Department has included assets that cost less than \$5,000 but equal to or more than \$1,000, and were purchased prior to July 1, 2005, on their capital asset inventory and financial statements.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture & Fixtures	10 years
Equipment & Machinery	10 years
Vehicles	5 years
Data Processing & Software	3 – 5 years

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

• **Deferred Revenues and Unexpired Subscriptions**

The New Mexico Magazine enterprise fund records deferred revenues relating to advertising that has been collected from their customers, but the magazine(s) in which the advertising will take place has (have) not been issued yet.

The New Mexico Magazine enterprise fund also records unexpired subscriptions because subscribers pay for between one and three years up front. The revenue is recorded as earned and any money received for magazines that have not been issued yet is recorded as unexpired subscriptions. The amount that will be earning in the next year is recorded as current and the remainder is recorded as long term.

There are no long-term liabilities relating to government funds.

• **Due To/From Other Funds**

Internal balances due to/from in the governmental funds are netted as part of the reconciliation to the government-wide columnar presentation, as such eliminating internal activity in the Statement of Activities.

• **Due to State General Fund (Reversions)**

Reversions to the State General Fund by the Department are based on the definitions of both reverting and non-reverting funds. Reversions are calculated by applying the percentage of reverting fund (to total budget for the category) to the amount unexpended for the category at fiscal year-end.

• **Reverting Funds**

Reverting funds are all funds that are not identified by law as non-reverting. Such funds are in excess of budgeted expenditures and budgeted and actual revenues. Examples of such reverting funds currently generated by the Department are miscellaneous revenues, sales and services revenues, and telephone monitoring revenues. Revenues for Joint Power Agreements (JPA) are reimbursements for actual costs, and as such, are a receivable due to the Department. Any amounts collected for these revenues over estimated budget are revertible funds, since they would be replacing reverting general funds that were temporarily used to support such activities. Reversions for JPA revenues are dependent on two criteria: 1) Period of receipt (current year versus prior year), and 2) Period of accrual (revenue recognition).

• **Non-Reverting Funds**

All funds which are either appropriated to or earned by the Department, and by law or statute, are not required to be reverted to the state treasury upon completion of a fiscal period or project are non-reverting funds.

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

• **Reservations of Fund Balance**

Reservations of fund balances on the Governmental Funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated, or (2) identify the portion of the fund balance that is not appropriated for future expenditures. Specific reservations of fund balance accounts are summarized below:

Reserved for prepaid expenses – this reserve was created to represent payments made to vendors for services or postage that will benefit periods beyond June 30, 2010.

Reserved for inventories – this reserve was created to represent the portion of fund balance that is not available for expenditures because the Department expects to use the resources within the next budgetary period.

Reserved for capital projects – amounts that are reserved for future capital projects by specific legislation.

Reserved for Special Revenue Funds – amounts that are reserved by law establishing the special revenue fund in which they belong.

• **Compensated Absences**

Qualified employees are entitled to accumulate annual leave according to a graduated leave schedule of 80 to 160 hours per year, depending upon length of service and employee's hire date. A maximum of 30 working days (240 hours) or such accumulated annual leave may be carried forward into the beginning of the calendar year and any excess leave is lost.

When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours. Accumulated annual leave is not expected to be liquidated with expendable available financial resources and is reported in the general long-term debt group.

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 that an employee may accumulate. Once per fiscal year in either January or July, employees may elect to be paid up to 50% of accrued sick leave in excess of 600 up to 720 hours, but not to exceed 120 hours (net 60 hours can be paid). In the case of retiring employees, up to 200 net hours in excess of the 600 hour minimum limit can be paid. All sick leave balances from 600 to 720 hours have been recorded at 50% of the employee's current hourly rate in the general long-term debt account group, including those amounts paid in July because no expendable financial resources are available as of the balance sheet date to liquidate the liability.

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

• **Compensated Absences - continued**

Amounts of accumulated leave for governmental funds are not expected to be liquidated with expendable available financial resources and as such are recorded in the government-wide financial statements and represent a reconciling item between the fund and government-wide presentations. Accumulated leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

• **Revenues**

Substantially all governmental fund revenues are accrued. Subsidies and grants to proprietary funds, if any, which finance either capital or current operations are reported as non-operating revenue based on GASB No. 33. In applying GASB No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient..

Capital projects funded through the State Board of Finance (Severance Tax Bond proceeds) are reported as receivable and recognized as revenues only when all applicable eligibility requirements of the State Board of Finance are met. There were no bond proceeds appropriated to the Department for the 2010 fiscal year.

The operating revenues and expenses of the proprietary funds are those transactions that constitute the funds' principal ongoing operations.

• **Segment Information**

Governments that report enterprise funds or that use enterprise fund accounting to report their activities are required to report on activities that have a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt outstanding during the year.

The enterprise fund of the Department has no revenue bonds or other revenue-backed instruments issued or outstanding and, therefore, no segment information is presented.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Program Revenues**

Program revenues are revenues that (1) originate from the program or from parties other than the government's taxpayers or citizens as a whole, and (2) reduce the expenses of the function that has to be financed by general revenues. Revenues of this type can originate from a governmental source, but the proceeds are a charge for services or products produced by a government agency, where that agency is considered a vendor within the market place. Additionally, program revenues are fees charged by the government agency that are used to support a specific operation of that governmental unit.

• Net Assets

The government-wide and business-type fund financial statements utilize a net asset presentation. Net assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted. The Department follows GASB 46, *Net Assets Restricted by Enabling Legislation*, for the Department's restrictions of net assets. In order to show net assets as restricted the restriction must be "legally enforceable."

Investment in Capital Assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Assets are liquid assets (generated from revenues and not bond proceeds), which have third-party (statutory, bond covenant or granting agency) limitations on their use.

Unrestricted Assets represent unrestricted liquid assets.

The Department applies unrestricted resources first for payment of expenditures when both restricted and unrestricted net assets are available.

• Use of Estimates

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

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements - continued

2. CASH (INVESTMENT IN STATE TREASURER’S INVESTMENT POOL)

State law requires the Department’s investments to be managed by the New Mexico State Treasurer’s Office.

The fair values of the investments maintained at the New Mexico State Treasurer’s Office are as follows at June 30, 2010:

Fund	SHARE Fund No.	Investment	Maturities	Fair Value June 30, 2010
General	18800	NM STO General Fund Investment Pool	1 day to 3 years	\$ 1,886,273
Litter Control and Beautification	26200	NM STO General Fund Investment Pool	1 day to 3 years	1,091,268
New Mexico Magazine	38200	NM STO General Fund Investment Pool	1 day to 3 years	524,782
Trail Safety	80400	NM STO General Fund Investment Pool	1 day to 3 years	-
Capital Projects	82300	NM STO General Fund Investment Pool	1 day to 3 years	60,294
Tourism Enterprise	91900	NM STO General Fund Investment Pool	1 day to 3 years	<u>3,201</u>
				<u>\$ 3,565,818</u>

• **Interest Rate Risk**

The Department does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

• **Credit Risk**

The New Mexico State Treasurer’s Office Pool is not rated.

For additional GASB 40 disclosure information related to the above investment pool, the reader should refer to the separate audit report for the State Treasurer’s Office for the fiscal year ended June 30, 2010.

• **Pledged Collateral (Custodial Credit Risk)**

In accordance with Section 6-10-7 NMSA 1978, deposits of public monies are to be collateralized in an aggregate equal to 50% of deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance coverage. Deposits are exposed to custodial risks if they are not covered by depository insurance.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements - continued

2. CASH (INVESTMENT IN STATE TREASURER’S INVESTMENT POOL) - continued

- **Pledged Collateral (Custodial Credit Risk) - continued**

Detail of pledged collateral specific to this agency is unavailable because the bank commingles pledged collateral for all state funds it holds. However, the State Treasurer’s Office collateral bureau monitors pledged collateral for all state funds held by state agencies in such “authorized” bank accounts.

The New Mexico State Treasurer’s office is responsible to ensure that all accounts have collateral at the required level for amounts in excess of FDIC coverage. The New Mexico State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments, which may differ from the cash deposited by the Department.

3. ACCOUNTS RECEIVABLE

- **Business-type Activities**

Accounts receivable at June 30, 2010 represents advertising revenue receivable and subscription revenue receivable of the New Mexico Magazine Enterprise Fund, as follows:

	<u>Advertising Receivable</u>	<u>Subscription Receivable</u>	<u>Total Receivable</u>
Total accounts receivable	\$ 970,771	65,222	1,035,993
Less allowances for uncollectible accounts	<u>(826,110)</u>	<u>(13,044)</u>	<u>(839,154)</u>
Accounts receivable, net	\$ <u>144,661</u>	<u>52,178</u>	<u>196,839</u>

Management expects the entire balance of net accounts receivable to be collected within one year of the balance sheet date.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements - continued

4. DUE FROM/TO OTHER FUNDS

Interfund receivables and payables arise primarily from deposits being posted to the wrong fund by the State Treasurer’s Office and not having been transferred to the appropriate fund yet, and from funds having cash shortages and borrowing from another fund. All interfund payables and receivables are expected to be settled within one year. Due from and due to other funds as of June 30, 2010 are as follows:

<u>SHARE Fund No.</u>	<u>Fund Name</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
18800	General Fund	\$ -	50,000
	Capital Projects Funds:		
82300	Capital Projects	<u>50,000</u>	<u>-</u>
	Total Government Funds	\$ <u>50,000</u>	<u>50,000</u>

5. TRANSFERS IN/OUT

The Tourism Enterprise fund transferred \$25,002 to the general fund to reimburse the general fund for salary payments. Transfers as of June 30, 2010 consisted only of this transferred amount.

<u>Transfers In</u>		<u>Transfers Out</u>	
		Tourism Enterprise	
General Fund	\$ 25,002		-
Tourism Enterprise	<u>-</u>	<u>(25,002)</u>	
Funds transfers total	\$ <u>25,002</u>	<u>(25,002)</u>	

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements - continued

6. DUE FROM/TO OTHER STATE AGENCIES

Due from and due to other state agencies represent interagency receivables and payables arising from interagency transactions.

A. Due From Other State Agencies

<u>Due from Other State Agencies</u>	<u>Fund No.</u>	<u>Amount</u>	<u>Due from Agency/Purpose</u>	<u>Fund No.</u>	<u>Amount</u>
Litter Control & Beautification	26200	\$ 97,350	TRD/MVD Distribution for June 2009	39401	\$ 97,350
Litter Control & Beautification	26200	<u>277</u>	Department of Game & Fish/ OHV Distribution	10840	<u>277</u>
Total All Funds		\$ <u>97,627</u>	Total All Funds		\$ <u>97,627</u>

B. Due To Other State Agencies

<u>Transfers to Other State Agencies</u>	<u>Fund No.</u>	<u>Amount</u>	<u>Due to Agency/Purpose</u>	<u>Fund No.</u>	<u>Amount</u>
New Mexico Magazine	38200	\$ 9,694	TRD/Gross Receipts Tax	17200	\$ 9,694
Tourism Enterprise	91900	<u>702</u>	TRD/Gross Receipts Tax	17200	<u>702</u>
Total All Funds		\$ <u>10,396</u>			\$ <u>10,396</u>

7. INVENTORIES

The Department has various inventories which are valued at the lower of cost or market. Cost is determined by the actual amount paid, or if not available, estimated using gross profit approach.

The inventory balance of \$4,089 in the Governmental Activities represents various expendable office supplies, such as toner cartridges for copiers and printers and paper supplies.

The inventory balance of \$104,204 in the Business-type Activities represents items for resale for New Mexico Magazine Fund and items for resale at various visitor information centers for the Tourism Enterprise Fund.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements - continued

8. CAPITAL ASSETS

A summary of changes in capital assets follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2009</u>	<u>Reclassifications</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>
Equipment & Machinery	\$ 85,338	-	-	(58,182)	27,156
Furniture & Fixtures	21,056	-	-	(7,803)	13,253
Data Processing & Software	72,441	-	-	(41,138)	31,303
Vehicles	<u>143,081</u>	<u>-</u>	<u>-</u>	<u>(12,589)</u>	<u>130,492</u>
Total capital assets	<u>321,916</u>	<u>-</u>	<u>-</u>	<u>(119,712)</u>	<u>202,204</u>
Less accumulated depreciation for:					
Equipment & Machinery	(65,810)	4,452	(2,758)	58,182	(5,934)
Furniture & Fixtures	(21,056)	5,316	(2,271)	7,803	(10,208)
Data Processing & Software	(55,724)	6,928	(3,205)	41,138	(10,863)
Vehicles	<u>(37,219)</u>	<u>(16,696)</u>	<u>(20,587)</u>	<u>7,703</u>	<u>(66,799)</u>
Total accumulated depreciation	<u>(179,809)</u>	<u>-</u>	<u>(28,821)</u>	<u>114,826</u>	<u>(93,804)</u>
Governmental activities capital assets, net	\$ <u><u>142,107</u></u>	<u><u>-</u></u>	<u><u>(28,821)</u></u>	<u><u>(4,886)</u></u>	<u><u>108,400</u></u>

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements - continued

8. CAPITAL ASSETS - continued

A summary of changes in capital assets follows:

<u>Business-type Activities</u>	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>
Equipment & Machinery	\$ 3,882	-	(1,016)	2,866
Furniture & Fixtures	8,312	-	(6,911)	1,401
Data Processing & Software	22,345	-	(20,708)	1,637
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets	<u>34,539</u>	<u>-</u>	<u>(28,635)</u>	<u>5,904</u>
Less accumulated depreciation for:				
Equipment & Machinery	(3,684)	(198)	1,016	(2,866)
Furniture & Fixtures	(8,008)	(304)	6,911	(1,401)
Data Processing & Software	<u>(22,345)</u>	<u>-</u>	<u>20,708</u>	<u>(1,637)</u>
Total accumulated depreciation	<u>(34,037)</u>	<u>(502)</u>	<u>28,635</u>	<u>(5,904)</u>
Business-type activities capital assets, net	\$ <u><u>502</u></u>	<u><u>(502)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

The depreciation expense for the Government Activities and the Business-type Activities was \$28,821 and \$502, respectively. The Department did not have any debt related to capital assets as of June 30, 2010. In the Statement of Activities, Depreciation Expense is captured in Tourism and Publishing categories for the governmental and business-type activities, respectively.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements - continued

9. COMPENSATED ABSENCES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2010:

Governmental Activities:

		<u>Balance, June 30, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance, June 30, 2010 (Due Within One Year)</u>
Comp. Absences	\$	<u>249,390</u>	<u>175,258</u>	<u>(174,910)</u>	<u>249,738</u>

Business-type Activities:

		<u>Balance, June 30, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance, June 30, 2010 (Due Within One Year)</u>
Comp. Absences	\$	<u>66,865</u>	<u>61,046</u>	<u>(56,736)</u>	<u>71,175</u>

Compensated absences are liquidated within the fund in which the corresponding employee's compensation is expensed. Compensated absences have been liquidated from the General Fund (SHARE number 18800), approximately 74%, Litter Control & Beautification Fund (SHARE number 26200), approximately 3% and NM Magazine Fund (SHARE number 38200), approximately 23%.

10. REVERSIONS

Reversions due to the State General Fund as of June 30, 2010 were as follows:

<u>Laws</u>		<u>Reversion</u>
Laws of 2010	\$	176,311
General Fund Executive Order 2009-044 Reversion, Laws 2010		<u>409,265</u>
Total	\$	<u>585,576</u>

In accordance with statute Section 6-5-10(A) NMSA 1978, all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert. A total of \$194,390 was paid to the State General Fund during the year. \$391,186 is payable at June 30, 2010 and due by September 30, 2010. This payable may be adjusted within 45 days of the release of this audit by the New Mexico Office of the State Auditor.

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 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 fiscal years ending June 30, 2010, 2009 and 2008 were \$527,680, \$655,243 and \$585,359, respectively, which equal the amount of the required contributions for each fiscal year.

12. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**• Plan Description**

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

• **Plan Description - continued**

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

• **Funding Policy**

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2010, the statute required each participating employer to contribute 1.3% of each participating employee’s annual salary; each participating employee was 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:

For employees who are not members of an enhanced retirement plan, the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY11	1.666%	.833%
FY12	1.834%	.917%
FY13	2.000%	1.000%

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

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

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements - continued

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

• **Funding Policy - continued**

The Department's contributions to the RHCA for the years ended June 30, 2010, 2009 and 2008 were \$47,467, \$50,863 and \$68,850, respectively, which equal the required contributions for each year.

13. **OPERATING LEASES**

The Department leases vehicles, copiers and other machines. Leases are subject to future appropriations and as such are cancelable by the Department at the end of a fiscal year. The future minimum rental commitments as of June 30, 2010 are as follows:

Years ending June 30:	<u>Lease Amounts</u>
2011	\$ 34,247
2012	17,327
2013	7,220
2014	-
2015 and thereafter	<u>-</u>
	\$ <u>58,794</u>

Lease expense under all long-term operating leases for the year ended June 30, 2010 was \$45,903.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements - continued

14. OTHER FINANCING SOURCES (USES)

The following is a summary of other financing sources (uses) for the Tourism Department:

A. Transfers In From Other State Agencies

<u>Transfers to (purpose)</u>	<u>Fund No.</u>	<u>Amount</u>	<u>Transfers from - Agency No.</u>	<u>Fund No.</u>	<u>Amount</u>
<u>Governmental Funds</u>					
General Fund (General Appropriations)	18800	\$ <u>11,074,200</u>	Department of Finance and Administration – 34100	85300	\$ <u>(11,074,200)</u>
Total – Governmental Funds		\$ <u>11,074,200</u>			\$ <u>(11,074,200)</u>

B. Transfers Out To Other State Agencies

<u>Transfers from (purpose)</u>	<u>Fund No.</u>	<u>Amount</u>	<u>Transfers to</u>	<u>Fund No.</u>	<u>Amount</u>
<u>Governmental Funds</u>					
General Fund (2010 Reversions)	18800	\$ (567,011)	Department of Finance and Administration – 34100	85300	\$ 567,011
Trail Safety (Transfer of Assets)	80400	(1,333,709)	Department of Game and Fish	10840	1,333,709
General Fund (Appropriation)	18800	(15,000)	Inter-Tribal Ceremonial Office	82900	15,000
Capital Projects (2010 Reversions)	82300	<u>(18,565)</u>	Department of Finance and Administration – 39106	85300	<u>18,565</u>
Total – Governmental Funds		\$ <u>(1,934,285)</u>			\$ <u>1,934,285</u>

15. DEFICIT NET ASSETS BALANCE

The New Mexico Magazine fund had a deficit in net assets at June 30, 2010 amounting to \$765,791. The Department’s revenues in fiscal year 2010 for this fund fell short of budget by \$1,174,474. The Department did not earn the revenue they had budgeted for due to a downturn in the economy, leading to less revenue from subscriptions and advertising. The Department plans to alleviate the deficit net assets balance by consolidating costs, working with ASD to combine costs of operations (printing, copiers, leases, etc.) to lessen the burden of the Magazine fund. The Tourism staff throughout the agency is also looking at work, production, art design, etc. that can be done by current Magazine staff rather than contracting out to external vendors. Currently, there are scheduled furloughs without pay; in addition, Magazine management is reviewing operations and determining cost to revenue ratios and will restructure and streamline some operational duties and functions that are no longer feasible due to excessive cost or changes in technology.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Notes to Financial Statements - continued

16. RISK MANAGEMENT

The Department is exposed to various risks of loss for which it carries insurance through the Risk Management Division of the General Services Department (Workers Compensation; General Liability; Civil Rights; Foreign Jurist; Auto Liability; Auto Physical; Money & Securities; Property Building & Contents; Employee Dishonesty Bond). There was no material pending or threatened litigation at June 30, 2010.

17. BUDGET VIOLATIONS

The Department did not maintain compliance with two funds' budgeted amounts. The Department had a budget variance within the following funds:

<u>Fund</u>	<u>Category</u>	<u>Final Budget Expenditure Variance</u>
General	Personnel services/benefits	\$ (142,361)
Tourism Enterprise	Other financing uses	\$ (25,002)

18. NEW PRONOUNCEMENTS

Effective for fiscal years beginning after June 15, 2010, GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, will provide modifications to and additional types of fund balance classifications. This statement will enhance the usefulness of fund balance information to provide more consistency among the classifications and will establish reporting standards for all governments that report governmental funds. Although early implementation is encouraged, the State of New Mexico has decided to implement this new pronouncement for fiscal year ending June 30, 2011. The impact on the Department's financial statements has not yet been determined.

Effective for fiscal years beginning after June 15, 2010, GASB 59, *Financial Instruments Omnibus*, updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The impact on the Department's financial statements has not yet been determined.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO TOURISM DEPARTMENT

Statement of Revenues and Expenditures -
Major Capital Projects Fund 82300 -
Budget and Actual (Modified Accrual Budgetary GAAP Basis)

YEAR ENDED JUNE 30, 2010

	Life-to-Date Budgeted Amounts	FY10 Actual Amounts	Life-to-Date Actual Amounts	Variance Over (Under)
REVENUES:				
State General Fund appropriations	\$ 1,016,792	-	1,016,792	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
TOTAL REVENUES	1,016,792	-	1,016,792	-
EXPENDITURES - current:				
Personnel services/benefits	-	-	-	-
Contractual services	15,000	-	11,845	3,155
Other	869,792	152,882	843,833	25,959
Other financing uses	132,000	-	113,435	18,565
TOTAL EXPENDITURES	\$ <u>1,016,792</u>	<u>152,882</u>	<u>969,113</u>	<u>47,679</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER EXPENDITURES AND OTHER FUNDING SOURCES (USES))				
		\$ <u>(152,882)</u>		

STATE OF NEW MEXICO TOURISM DEPARTMENT

**Statement of Revenues and Expenditures -
Enterprise Fund -
Budget and Actual (Accrual Budgetary GAAP Basis)**

YEAR ENDED JUNE 30, 2010

	NEW MEXICO MAGAZINE 38200			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts	Final Budget
				Positive (Negative)
REVENUES:				
State General Fund	\$ -	-	-	-
Charges for services	4,594,800	4,594,800	3,420,326	(1,174,474)
Other financing sources	-	-	-	-
TOTAL REVENUES	4,594,800	4,594,800	3,420,326	(1,174,474)
EXPENDITURES - current:				
Personnel services/benefits	1,220,900	1,220,900	1,205,055	15,845
Contractual services	971,100	971,100	720,303	250,797
Other	2,402,800	2,402,800	1,996,413	406,387
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	4,594,800	4,594,800	3,921,771	673,029
CHANGE IN NET ASSETS	\$ -	-	(501,445)	(501,445)
NON-BUDGETED ITEMS:				
Depreciation expense			(502)	
CHANGE IN NET ASSETS			\$ (501,947)	

STATE OF NEW MEXICO TOURISM DEPARTMENT

**Statement of Revenues and Expenditures -
Enterprise Fund -
Budget and Actual (Accrual Budgetary GAAP Basis) - continued**

YEAR ENDED JUNE 30, 2010

	TOURISM ENTERPRISE 91900			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts	Final Budget
				Positive (Negative)
REVENUES:				
State General Fund	-	-	-	-
Charges for Services	85,000	85,000	20,511	(64,489)
Miscellaneous	-	-	5,315	5,315
Other financing sources	-	-	-	-
TOTAL REVENUES	85,000	85,000	25,826	(59,174)
EXPENDITURES - current:				
Personnel services/benefits	-	-	-	-
Contractual services	-	-	-	-
Other	85,000	85,000	44,407	40,593
Other financing uses	-	-	25,002	(25,002)
TOTAL EXPENDITURES	85,000	85,000	69,409	15,591
CHANGE IN NET ASSETS	-	-	(43,583)	(43,583)

YEAR ENDED JUNE 30, 2010

Fund	Class	Purpose	Special Appropriation	Funds Revert
General	90123	New Mexico Bowl	2009, Chap 124, Section 5, item (23)	6/30/2010
General	90124	Ecotourism	2009, Chap 124, Section 5, item (24)	6/30/2010
Total				
Capital Projects	61279	Georgia O'Keeffe	2006, Chap 111, Sec 47, Item 3	6/30/2010
Capital Projects	75650	ICO	2007, Chap 42, Sec 74, Item 1	6/30/2011
Capital Projects	75651	Otero Sunspot	2007, Chap 42, Sec 74, Item 2	6/30/2011
Capital Projects	75652	Event Trailer	2007, Chap 42, Sec 74, Item 3	6/30/2011
Capital Projects	73520	Angel Fire	2007, Chap 2, Sec 29, Item 1	6/30/2011
Capital Projects	61908	BTK	2006, Chap 111, Sec 52, Item 657	6/30/2010
Capital Projects	75568	IT for NM Bowl	2007, Chap 42, Sec 68, Item 699	6/30/2011
Capital Projects	61721	Furnish Gallup VIC	2006, Chap 111, Sec 52, Item 424	6/30/2010
Capital Projects	61754	Furnish Glenrio VIC	2006, Chap 11, Sec 52, Item 467	6/30/2010
Total				

STATE OF NEW MEXICO TOURISM DEPARTMENT

Schedule of Special Appropriations

Appropriation Amount	Expenditures to Date	Amount Received to Date	Amount Received in FY2010	Reserved for Expenditure	Reserved for Reversion
370,000	344,923	370,000	\$ -	-	25,077
250,000	246,000	250,000	-	-	4,000
			\$ -	-	29,077
47,000	47,000	47,000	\$ -	-	-
113,435	113,435	113,435	-	-	-
75,000	75,000	75,000	-	-	-
100,000	100,000	100,000	-	-	-
25,000	25,000	25,000	-	-	-
162,792	162,792	162,792	-	-	-
200,000	185,178	200,000	-	-	14,822
100,000	74,807	100,000	-	-	25,193
50,000	37,422	50,000	-	-	12,578
			\$ -	-	52,593

Schedule 5

YEAR ENDED JUNE 30, 2010

The following is a list of Joint Powers Agreements the Department has entered into:

	<u>Responsible Party</u>
New Mexico Department of Corrections (NMCD) For the Fulfillment Center and toll-free telemarketing	NMCD
New Mexico Department of Transportation, New Mexico Taxation and Revenue Department For the National Scenic Byways Historical Route 66	NMTD
Georgia O'Keeffe Museum (GOK) New Mexico Dept. of Finance and Administration For media production, education & training facilities programs for O'Keeffe Museum Website.	GOK
New Mexico Department of Transportation New Mexico Tourism Dept./Glenrio Rest Area/Visitor Center. Payment responsibility for utilities services to operate the Glenrio Rest Area/Visitor Center.	NMTD
New Mexico Department of Transportation New Mexico Tourism Dept./Manuelito Rest Area/Visitor Center. Payment responsibility for utilities services to operate the Manuelito Rest Area/Visitor Center.	NMTD
New Mexico Department of Finance & Administration Funding provided to NMTD to host the United States & Spanish National Rugby sports events.	NMTD
City of Raton New Mexico Tourism Dept./Raton Visitor Information Center Define and clarify the responsibilities of the parties as tenants of the Center.	NMTD
New Mexico Department of Cultural Affairs (DCA) To promote the Museum of NM's 100th anniversary & open the NM History Museum.	DCA
Association of Universities/Research in Astronomy To plan, design, construct, equip and furnish the sunspot solar system model at the Sunport Astronomy and visitor Center in Otero County.	NMTD

STATE OF NEW MEXICO TOURISM DEPARTMENT

Schedule of Joint Powers Agreements

<u>Dates of Agreement</u>		<u>Amount Applicable</u>	<u>Amount Contributed</u>	<u>Audit Responsibility</u>
<u>Beginning</u>	<u>Ending</u>			
2/15/2008	indefinite	\$ 140,000	\$ 129,391	NMTD
3/12/2007	indefinite	\$ -	\$ -	NMTD
5/15/2008	6/30/2010	\$ 47,000	\$ 47,000	NMTD
12/18/2008	indefinite	\$ 12,500	\$ 12,500	NMTD
12/18/2008	indefinite	\$ 12,500	\$ 12,500	NMTD
5/4/2009	6/30/2010	\$ 50,000	\$ 50,000	NMTD
12/9/2008	indefinite	\$ -	\$ -	NMTD
7/11/2009	9/30/2009	\$ 350,000	\$ 100,000	DCA
7/11/2008	6/30/2011	\$ 75,000	\$ 75,000	NMTD

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

Mr. Michael Cerletti, Cabinet Secretary
State of New Mexico Tourism Department and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, the budgetary comparisons for the general fund and major special revenue funds, and the major capital project and the major enterprise funds budgetary comparisons presented as supplemental information of the State of New Mexico, Tourism Department (Department), as of and for the year ended June 30, 2010, and have issued our report thereon dated November 10, 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 financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department’s internal control over financial reporting.

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



Mr. Michael Cerletti, Cabinet Secretary
State of New Mexico Tourism Department and
Mr. Hector H. Balderas
New Mexico State Auditor

Internal Control Over Financial Reporting - continued

A **deficiency in internal control** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A **material weakness** is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as finding 08-01 to be a material weakness.

A **significant deficiency** is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as finding 08-04 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 10-01 and 09-02.

We also noted certain other matters that are required to be reported under *Government Auditing Standards January 2007 Revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as findings 09-03 and 09-06.

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

Mr. Michael Cerletti, Cabinet Secretary
State of New Mexico Tourism Department and
Mr. Hector H. Balderas
New Mexico State Auditor

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

Mejers + Company, LLC

November 10, 2010

B. FINDINGS - FINANCIAL STATEMENT AUDIT**08-01 INTERNAL CONTROLS OVER FINANCIAL REPORTING (Material Weakness) – Repeated and Modified**

Condition: General ledger accounts were not properly reconciled throughout the year. Specific accounts that were not reconciled throughout the year include: accounts receivable, allowance for doubtful accounts, due from other state agencies, inventory, prepaid expenses, fixed assets, depreciation expense, accounts payable, deferred advertising revenue, unexpired subscriptions and fund balance. Multiple audit adjustments were posted as a result of these accounts not being reconciled during the year.

Criteria: New Mexico’s Manual of Model Accounting Practices (Volume 1, Chapter 8, Section 3.2) requires monthly reconciliations of all accounts. Individual accounts should be reconciled on a monthly basis. Discrepancies and inconsistencies should be investigated as soon as they are discovered.

Effect: Account balances are not representative of the financial position of the Department. Lack of receiving and reporting timely and current financial information throughout the year can significantly impact management’s ability to effectively guide the Department and the divisions within the Department. In addition, errors (including potential fraud) may not be prevented or discovered without proper, consistent and timely reconciliations and compilation of interim financials statements.

Recommendation: We recommend that the Department develop month-end processes for reconciling general ledger accounts, and split these responsibilities among the ASD staff according to the assessed strengths and weaknesses of each individual. These employees should be provided with clear expectations and guidance in carrying out their duties, and they should be held accountable to completing their assignments in a timely matter. Such duties should include monthly reconciliation of accounts and transactions within each fund, with another individual charged with review and approval of the reconciliations. General ledger accounts should be reconciled to subsidiary ledgers, inventory count sheets, capital asset and depreciation detail, and so forth for each account requiring adjustment.

Management’s Response: Management agrees in part with the auditors’ findings. Staff has since implemented a monthly reconciliation of the books. This was executed half way through the year and is now done on a monthly basis. The Department has a new accountant and had been working diligently with DFA and the CAFR unit for assistance and training to continue the proper procedures needed.

08-04 OVER EXPENDED BUDGETS (Significant Deficiency) – Repeated and Modified

Condition: The Department over-expended its budget in the General Fund “personnel services and benefits” category by \$142,361. Also, the “other financing uses” category in the Tourism Enterprise fund exceeded its budget by \$25,002.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Schedule of Findings and Responses - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

08-04 OVER EXPENDED BUDGETS (Significant Deficiency) – Repeated and Modified - continued

Criteria: According to State Auditor Rule 2.2.2.10, if an agency's expenditures exceed its budget in any category, this fact must be disclosed in a finding.

Cause: The Department is not making the necessary Budget Adjustment Requests to comply with State of New Mexico budgeting regulations.

Effect: The Department is not in compliance with State budgetary regulations.

Recommendation: We recommend the Department implement a process through which financial statements are produced each month and Budget Adjustment Requests be made in a timely manner to avoid over-expenditure of budgets.

Management's Response: Management partially agrees with the auditors' findings. Due to the time frames established by DFA for BAR submission, the Tourism Department was unable to prevent these over-expenditures; however, legislative authority exists that allows the Tourism Department to budget from fund balance.

09-02 LACK OF ADEQUATE SEGREGATION OF DUTIES (Control Deficiency) – Repeated and Modified

Condition: Checks are received in the mail as payments from advertising customers for New Mexico Magazine. The mail is opened by only one individual and then later given to another individual for further processing.

Criteria: In order to reduce the likelihood of misappropriation of assets, the mail should be opened with two individuals present. A control list should be made that documents the information on the checks and both individuals should sign this list. The control list and the checks should then be sent for processing by the appropriate personnel.

Cause: Lack of internal controls over the cash receipts process.

Effect: The possibility of the misappropriation of checks is heightened when duties are not properly segregated.

Recommendation: We recommend that the Department implement a process through which two individuals are present when the mail is opened each day, and that the checks received are documented on a control list that both individuals sign, attesting to its accuracy.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Schedule of Findings and Responses - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

09-02 LACK OF ADEQUATE SEGREGATION OF DUTIES (Control Deficiency) – Repeated and Modified - continued

Management's Response: Management acknowledges that the mail is opened by only one person. The Department has only limited staff and often there is no one available to have an additional person assist with the mail opening. The majority of payments received are primarily checks from advertising sales. Cash is received infrequently and in such small quantities that it is not cost effective to have more than one person opening it.

09-03 NON-COMPLIANCE WITH THE PER DIEM AND MILEAGE ACT (Control Deficiency) - Repeated and Modified

Condition: During test work over per diem payments, one individual out of forty did not have an approval signature on his request for payment.

Criteria: Per NMAC 2.42.2.10 (A), “upon written request accompanied by a travel voucher, agency heads...may approve a public officer’s or employee’s request to be advanced up to eighty percent of per diem rates.” Evidence of approval in these circumstances would include the signature of the employee’s supervisor.

Cause: The Department is not adhering to the policy of requiring signatures on per diem payments.

Effect: The Department is not in compliance with the New Mexico Procurement Code.

Recommendation: We recommend that the Department implement a process through which requests for payments are reviewed for authorization prior to processing.

Management's Response: Management is in agreement with the auditors’ finding. Management will continue to educate all Department staff of this policy. Management will ensure that ASD staff are aware of what is needed on each document, and will continue to closely monitor staff.

09-06 LACK OF CONTROLS OVER PAYROLL PROCESSING (Control Deficiency) – Repeated and Modified

Condition: During test work of internal controls over payroll, one sample out of forty did not have a supervisor’s signature for leave taken.

Criteria: Per New Mexico Manual of Model Accounting Practices, section HR1, “state agencies must document requests for one-time pay adjustments.” Time should be approved by a supervisor who can vouch for the time worked or leave taken by an employee.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Schedule of Findings and Responses - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

09-06 LACK OF CONTROLS OVER PAYROLL PROCESSING (Control Deficiency) – Repeated and Modified - continued

Cause: The Department is not following the prescribed practice of requiring leave forms for all employees to have the signature of those employees' supervisors.

Effect: Without documentation of supervisor approval, pay adjustments may be made that are inconsistent with the employee's actual performance.

Recommendation: We recommend that the individual responsible for inputting time and leave into the payroll system require signed and approved leave sheets from all employees who take leave in a given pay period.

Management's Response: Management is in full agreement with the auditors' findings. Department staff have been informed that leave forms must be submitted for all leave taken, and must be signed by appropriate supervisors.

10-01 PROCUREMENT (Control Deficiency)

Condition: During contract test work, we tested fifteen contracts and discovered one contract in which payments were made in excess of the stated contract amount. The total excess payment was \$5,293.

Criteria: The agreement in place between the Department and the vendor did not allow for billings in excess of the stated amount of the contract. Per NMAC 1.4.1.43, "an award shall be made to the responsible offeror whose proposal is most advantageous to a state agency." When contracts are over-expended, the procurement process' effectiveness at establishing the "most advantageous" offer is diminished.

Cause: Management oversight and inconsistent accounting for expenditures incurred under professional services contracts.

Effect: An amount in excess of an awarded contract amount is being paid without a contract amendment being put in place.

Recommendation: We recommend that payments to a contractor be monitored to ensure agreed-upon contract amounts are not exceeded. In the event of an overage of the approved amount stated on the original contract, a contract amendment should be properly prepared.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Schedule of Findings and Responses - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

10-01 PROCUREMENT (Control Deficiency) - continued

Management's Response: The Department agrees with the findings provided by the auditors. Upper management has been advised that the terms set forth in the contracts are binding and that the amounts are not to be exceeded. Contracts will be closely monitored by staff to ensure compliance. Management will ensure proper training is in place and will inform the staff of mandatory contract requirements.

STATE OF NEW MEXICO TOURISM DEPARTMENT

Summary Schedule of Prior Year Audit Findings

- 08-01 Internal Controls over Financial Reporting (Material Weakness) – Repeated and Modified
- 08-02 Procurement (Control Deficiency) – Resolved
- 08-03 Unpaid Reversions to the State General Fund (Significant Deficiency) – Resolved
- 08-04 Over-Expended Budgets (Significant Deficiency) – Repeated and Modified
- 09-01 Lack of Method of Determining Allowance for Uncollectible Accounts (Significant Deficiency) – Resolved
- 09-02 Lack of Adequate Segregation of Duties (Control Deficiency) – Repeated and Modified
- 09-03 Non-Compliance with the Per Diem and Mileage Act (Control Deficiency) – Repeated and Modified
- 09-04 Cash Receipts Deposits (Control Deficiency) – Resolved
- 09-05 Lack of Approval to Pay Invoices (Control Deficiency) – Resolved
- 09-06 Lack of Controls over Payroll Processing (Control Deficiency) – Repeated and Modified
- 09-07 Capital Asset Procedures (Control Deficiency) – Resolved
- 09-08 Journal Entry Approval (Significant Deficiency) – Resolved

STATE OF NEW MEXICO TOURISM DEPARTMENT

Exit Conference

An exit conference was held with the Department on November 10, 2010 at the Department's offices in Santa Fe, New Mexico. In attendance were:

STATE OF NEW MEXICO TOURISM DEPARTMENT

Jennifer Hobson, Deputy Cabinet Secretary
Al Lucero, Chair of Tourism Commission
Rick Scroggins, Director, Administrative Services Division
Elizabeth Romero-Eoff, Deputy Director, Administrative Services Division
Denise Lente, Accountant and Auditor

MEYNNERS + COMPANY, LLC

Georgie Ortiz, CPA, CGFM, Principal
Raul J. Anaya, CPA, CGFM, Manager
Ryan W. Jones, In-charge Accountant

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the independent auditor with the assistance of the Department. However, they are the responsibility of management, as addressed in the Independent Auditors' Report. Management reviewed and approved the financial statements.