

**STATE OF NEW MEXICO
TOURISM DEPARTMENT
Santa Fe, New Mexico**

**FINANCIAL STATEMENTS
June 30, 2011**

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**STATE OF NEW MEXICO TOURISM DEPARTMENT
OFFICIAL ROSTER
June 30, 2011**

Monique Jacobson, Cabinet Secretary

Therese Trujillo, Director, Administrative Services

Elizabeth Romero-Eoff, Chief Financial Officer

Independent Auditor's Report

Ms. Monique Jacobson, 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 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, 2011, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the budgetary comparisons for the major capital project fund, and enterprise funds presented as supplementary information as of and for the year ended June 30, 2011, 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. 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 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, 2011, 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.

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 of the Department as of June 30, 2011, 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, 2011 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the New Mexico Magazine (the Magazine), a business-type fund of the Department, will continue as a going concern. As discussed in Note 17 to the financial statements, the Magazine generated an operating loss of \$795,452, had bank overdrafts of \$417,340 and had an overall negative net asset balance of \$1,561,243 at June 30, 2011. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 17. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011, 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 is not a required part of the basic financial statements but is 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 Powers 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 Powers 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.

Clifton Henderson LLP

Albuquerque, New Mexico
December 13, 2011

**STATE OF NEW MEXICO TOURISM DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

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 two parts: 1) management's discussion and analysis and 2) the basic financial statements.

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 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, 2011. 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.

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 2011. 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.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

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 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.

Financial Analysis of the Department as a Whole

Net Assets: Total Department net assets for fiscal year ending June 30, 2011 are \$(509,983): \$1,024,998 in Governmental and \$(1,534,981) in Business-type activities. The net assets are restricted, mainly for capital projects and special revenues. The unrestricted net assets in Governmental Activities were \$(92,866) and in Business-type activities were \$(1,534,981) at the end of the fiscal year.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

**Table A-1
The Department's Net Assets**

Governmental

	<u>FY 2011</u>	<u>FY2010</u>	<u>Amount Change</u>	<u>Total % Change</u>
Assets:				
Current and other assets	\$ 2,632,832	\$ 3,478,371	\$ (845,539)	-24%
Capital assets, net	<u>82,938</u>	<u>108,400</u>	<u>(25,462)</u>	-23%
Total assets	<u>\$ 2,715,770</u>	<u>\$ 3,586,771</u>	<u>\$ (871,001)</u>	-24%
Liabilities:				
Current liabilities	\$ 1,688,569	\$ 2,593,404	\$ (904,835)	-35%
Long-term liabilities	<u>2,203</u>	<u>-</u>	<u>2,203</u>	100%
Total liabilities	1,690,772	2,593,404	(902,632)	-35%
Net assets:				
Invested in capital assets	82,938	108,400	(25,462)	-23%
Restricted	1,117,864	1,134,705	(16,841)	-1%
Unrestricted	<u>(175,804)</u>	<u>(249,738)</u>	<u>73,934</u>	-30%
Total net assets	<u>1,024,998</u>	<u>993,367</u>	<u>31,631</u>	3%
Total liabilities and net assets	<u>\$ 2,715,770</u>	<u>\$ 3,586,771</u>	<u>\$ (871,001)</u>	-24%

**STATE OF NEW MEXICO TOURISM DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

**Table A-1
The Department's Net Assets (continued)**

Business-type

	<u>FY 2011</u>	<u>FY2010</u>	<u>Amount Change</u>	<u>Total % Change</u>
Assets:				
Current and other assets	\$ 151,144	\$ 576,619	\$ (425,475)	-74%
Total assets	<u>\$ 151,144</u>	<u>\$ 576,619</u>	<u>\$ (425,475)</u>	-74%
Liabilities:				
Current liabilities	\$ 1,472,769	\$ 1,144,272	\$ 328,497	29%
Long-term liabilities	<u>213,356</u>	<u>173,859</u>	<u>39,497</u>	23%
Total liabilities	1,686,125	1,318,131	367,994	28%
Net assets:				
Unrestricted deficit	<u>(1,534,981)</u>	<u>(741,512)</u>	<u>(793,469)</u>	107%
Total net assets	<u>(1,534,981)</u>	<u>(741,512)</u>	<u>(793,469)</u>	107%
Total liabilities and net assets	<u>\$ 151,144</u>	<u>\$ 576,619</u>	<u>\$ (425,475)</u>	-74%

The Department's total assets are comprised of \$82,938 in capital assets and \$2,783,976 in other assets, for a total asset balance of \$2,866,914. The overall decrease in total assets from the previous fiscal year is \$1,296,476. Liabilities are also broken out into two segments: current liabilities and non-current liabilities. The total amount of current liabilities is \$3,161,338, a decrease of 14% from the prior year balance of \$3,737,676. Non-current liabilities are limited to the amount of unexpired subscriptions related to New Mexico Magazine subscriptions and compensated absences; 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 \$213,356.

The Department's Activities: The table below summarizes the Department's activities for the fiscal years ending June 30, 2011 and 2010. Total change in net assets from the previous fiscal year was a decrease of \$761,838.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

**Table A-2
Changes in the Department's Net Assets**

Governmental

	<u>FY 2011</u>	<u>FY2010</u>	<u>Amount Change</u>	<u>Total % Change</u>
Program revenues	\$ -	\$ -	\$ -	0%
General revenues and transfers	<u>9,732,971</u>	<u>10,153,471</u>	<u>(420,500)</u>	-4%
Total revenue	9,732,971	10,153,471	(420,500)	-4%
Expenses	<u>(9,701,340)</u>	<u>(12,209,465)</u>	<u>2,508,125</u>	-21%
Change in net assets	31,631	(2,055,994)	2,087,625	-102%
Net assets, beginning	<u>993,367</u>	<u>3,049,361</u>	<u>(2,055,994)</u>	-67%
Net assets, ending	<u>\$ 1,024,998</u>	<u>\$ 993,367</u>	<u>\$ 31,631</u>	3%

Business-type

	<u>FY 2011</u>	<u>FY2010</u>	<u>Amount Change</u>	<u>Total % Change</u>
Program revenues	\$ 2,879,949	\$ 3,446,152	\$ (566,203)	-16%
General revenues and transfers	<u>-</u>	<u>(25,002)</u>	<u>25,002</u>	-100%
Total revenue	2,879,949	3,421,150	(541,201)	-16%
Expenses	<u>(3,673,418)</u>	<u>(3,966,680)</u>	<u>293,262</u>	-7%
Change in net assets	(793,469)	(545,530)	(247,939)	45%
Net assets, beginning	<u>(741,512)</u>	<u>(195,982)</u>	<u>(545,530)</u>	278%
Net assets, ending	<u>\$ (1,534,981)</u>	<u>\$ (741,512)</u>	<u>\$ (793,469)</u>	107%

**STATE OF NEW MEXICO TOURISM DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

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 four 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.

Fund Name	Fund Code	Balance, 30-Jun-11	Balance, 30-Jun-10	Total % Change
General Fund	18800	\$ 1,168,664	\$ 2,074,934	-44%
Litter Control and Beautification Fund	26200	\$ 1,180,132	\$ 1,157,114	2%
Scenic Byways Fund	30000	\$ 12,020	\$ -	0%
Capital Projects Fund	82300	\$ 40,928	\$ 60,294	-32%
Special Revenue ARRA Fund	89000	\$ (2,090)	\$ -	0%
New Mexico Magazine Fund	38200	\$ (417,340)	\$ 270,275	-254%
Tourism Enterprise Fund	91900	\$ 12,387	\$ 3,201	287%

**STATE OF NEW MEXICO TOURISM DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

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

Fund Name	Fund Code	Revenue		Total % Change
		Fiscal Year Ended 30-Jun-11	Fiscal Year Ended 30-Jun-10	
General Fund	18800	\$ 9,116,167	\$ 11,099,581	-20%
Litter Control and Beautification Fund	26200	1,003,699	993,061	1%
Scenic Byways Fund	30000	4,377	-	0%
Capital Projects Fund	82300	-	-	0%
Special Revenue ARRA Fund	89000	250,000	-	0%
New Mexico Magazine Fund	38200	2,863,983	3,420,326	-16%
Tourism Enterprise Fund	91900	15,966	25,826	-38%
Total revenues		\$ 13,254,192	\$ 15,538,794	

Fund Name	Fund Code	Expenditures		Total % Change
		Fiscal Year Ended 30-Jun-11	Fiscal Year Ended 30-Jun-10	
General Fund	18800	\$ 9,075,160	\$ 11,746,897	-23%
Litter Control and Beautification Fund	26200	958,675	562,528	70%
Scenic Byways Fund	30000	1,500	-	0%
Capital Projects Fund	82300	105,749	171,447	-38%
Special Revenue ARRA Fund	89000	250,000	-	0%
New Mexico Magazine Fund	38200	3,659,435	3,922,273	-7%
Tourism Enterprise Fund	91900	13,983	69,409	-80%
Total expenses		\$ 14,064,502	\$ 16,472,554	

**STATE OF NEW MEXICO TOURISM DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

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 less than budget by \$289,884.

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.

Capital Assets and Long-term Debt Activity

The net value of the Department's capital assets as of June 30, 2011 is \$82,938 and \$0 for the governmental and enterprise activities, respectively. For their governmental activities and business-type activities, the Department acquired no capital asset additions or disposals during the year. The Department's enterprise funds had no additions or deletions during the year.

The Department has no long-term debt activity during fiscal year 2011. Long-term liabilities recorded for the Department consist of long-term, unexpired magazine subscriptions.

Anticipated Future Conditions and Changes

The Department was awarded \$8,275,000 in State General Fund appropriations for fiscal year 2012.

The Department is currently taking steps to reduce the expenditures of the New Mexico Magazine, in response to the operation's overall negative net asset balance of \$1,561,243. In fiscal year 2012, the staff of the magazine was reduced from 17 individuals down to 13, which is expected to generate significant savings in the personnel services expenditure category. The Department's management has also requested appropriation money from the New Mexico State Legislature; however, it is unknown whether this will be granted.

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.

STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF NET ASSETS
June 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Investment in State General Fund Investment Pool	\$ 2,399,654	\$ 12,387	\$ 2,412,041
Due from other agencies	103,769	-	103,769
Receivables, net	-	54,309	54,309
Prepaid expenses	125,320	2,100	127,420
Inventories	<u>4,089</u>	<u>82,348</u>	<u>86,437</u>
Total current assets	<u>2,632,832</u>	<u>151,144</u>	<u>2,783,976</u>
Non-current:			
Capital assets	202,204	5,904	208,108
Less accumulated depreciation	<u>(119,266)</u>	<u>(5,904)</u>	<u>(125,170)</u>
Total non-current assets	<u>82,938</u>	<u>-</u>	<u>82,938</u>
TOTAL ASSETS	<u>\$ 2,715,770</u>	<u>\$ 151,144</u>	<u>\$ 2,866,914</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Bank overdraft	\$ -	\$ 417,340	\$ 417,340
Accounts payable	1,255,144	16,010	1,271,154
Accrued payroll and related liabilities	101,050	47,844	148,894
Due to other state agencies	21,341	-	21,341
Due to State General Fund	137,433	-	137,433
Deferred revenue	-	64,793	64,793
Compensated absences	173,601	48,230	221,831
Unexpired subscriptions	<u>-</u>	<u>878,552</u>	<u>878,552</u>
Total current liabilities	1,688,569	1,472,769	3,161,338
Long-term liabilities:			
Compensated absences	2,203	-	2,203
Unexpired subscriptions, long-term	<u>-</u>	<u>213,356</u>	<u>213,356</u>
Total liabilities	<u>1,690,772</u>	<u>1,686,125</u>	<u>3,376,897</u>
NET ASSETS			
Invested in capital assets	82,938	-	82,938
Restricted	1,117,864	-	1,117,864
Unrestricted deficit	<u>(175,804)</u>	<u>(1,534,981)</u>	<u>(1,710,785)</u>
Total net assets	<u>1,024,998</u>	<u>(1,534,981)</u>	<u>(509,983)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,715,770</u>	<u>\$ 151,144</u>	<u>\$ 2,866,914</u>

The accompanying notes are an integral part of the financial statements.

STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Tourism	\$ 9,951,340	\$ -	\$ 250,000	\$ -
Total governmental activities	9,951,340	-	250,000	-
BUSINESS-TYPE ACTIVITIES				
Publishing	3,673,418	2,879,949	-	-
Total business-type activities	3,673,418	2,879,949	-	-
TOTAL PRIMARY GOVERNMENT	\$ 13,624,758	\$ 2,879,949	\$ 250,000	\$ -

	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
	\$ (9,701,340)	\$ -	\$ (9,701,340)
	(9,701,340)	-	(9,701,340)
	-	(793,469)	(793,469)
	-	(793,469)	(793,469)
	(9,701,340)	(793,469)	(10,494,809)
General revenues:			
Beautification fee	1,007,299	-	1,007,299
Miscellaneous	2,244	-	2,244
Transfers:			
Reversion to the State General Fund FY11	(341,272)	-	(341,272)
State general fund appropriation	9,064,700	-	9,064,700
Intra-agency transfers, net	-	-	-
Other State agency transfers, net	-	-	-
Total general revenues and transfers	<u>9,732,971</u>	<u>-</u>	<u>9,732,971</u>
Change in net assets	31,631	(793,469)	(761,838)
Beginning net assets	<u>993,367</u>	<u>(741,512)</u>	<u>251,855</u>
Ending net assets	<u>\$ 1,024,998</u>	<u>\$ (1,534,981)</u>	<u>\$ (509,983)</u>

The accompanying notes are an integral part of the financial statements.

STATE OF NEW MEXICO TOURISM DEPARTMENT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	General Fund 18800	Litter Control and Beautification Fund 26200
ASSETS		
Investment in State General Fund		
Investment Pool	\$ 1,168,664	\$ 1,180,132
Due from other agencies	-	95,678
Prepaid items	125,054	266
Inventories	4,089	-
TOTAL ASSETS	\$ 1,297,807	\$ 1,276,076
LIABILITIES		
Bank overdraft	\$ -	\$ -
Accounts payable	965,654	283,489
Accrued payroll and related liabilities	96,054	4,996
Due to other state agencies	10,451	10,890
Due to State General Fund	96,505	-
Total liabilities	1,168,664	299,375
FUND BALANCES		
Nonspendable:		
Prepaid items	125,054	266
Inventories	4,089	-
Restricted	-	976,435
Total fund balances	129,143	976,701
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,297,807	\$ 1,276,076

Major Funds			
Scenic Byways Fund 03000	Capital Projects Fund 82300	Special Revenue ARRA Fund 89000	Total Governmental Funds
\$ 12,020	\$ 40,928	\$ -	\$ 2,401,744
-	-	8,091	103,769
-	-	-	125,320
-	-	-	4,089
<u>\$ 12,020</u>	<u>\$ 40,928</u>	<u>\$ 8,091</u>	<u>\$ 2,634,922</u>
\$ -	\$ -	\$ 2,090	\$ 2,090
-	-	6,001	1,255,144
-	-	-	101,050
-	-	-	21,341
-	40,928	-	137,433
-	40,928	8,091	1,517,058
-	-	-	125,320
-	-	-	4,089
12,020	-	-	988,455
12,020	-	-	1,117,864
<u>\$ 12,020</u>	<u>\$ 40,928</u>	<u>\$ 8,091</u>	<u>\$ 2,634,922</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2011**

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	\$	1,117,864
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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:		<u>(119,266)</u>
 Total capital assets		 <u>82,938</u>

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.		<u>(175,804)</u>
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Net assets of governmental activities (Statement of Net Assets)	\$	<u>1,024,998</u>
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The accompanying notes are an integral part of the financial statements.

STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	General Fund 18800	Litter Control and Beautification Fund 26200
REVENUES		
Beautification fee	\$ -	\$ 1,003,699
Federal grants	-	-
Miscellaneous	1,467	-
Total revenues	1,467	1,003,699
EXPENDITURES		
Tourism	8,774,816	958,675
Total expenditures	8,774,816	958,675
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(8,773,349)	45,024
OTHER FINANCING SOURCES (USES)		
State General Fund appropriations	9,064,700	-
Intra-agency transfers, net	50,000	-
Reversion to State General Fund 2011 fiscal year	(300,344)	-
Total other financing sources (uses)	8,814,356	-
NET CHANGE IN FUND BALANCE	41,007	45,024
FUND BALANCES, BEGINNING OF YEAR	88,136	931,677
FUND BALANCES, END OF YEAR	\$ 129,143	\$ 976,701

Major Funds

Scenic Byways Fund 03000	Capital Projects Fund 82300	Special Revenue ARRA Fund 89000	Total Governmental Funds
\$ 3,600	\$ -	\$ -	\$ 1,007,299
-	-	250,000	250,000
<u>777</u>	-	-	<u>2,244</u>
4,377	-	250,000	\$ 1,259,543
<u>1,500</u>	<u>14,821</u>	<u>250,000</u>	<u>9,999,812</u>
1,500	14,821	250,000	9,749,812
2,877	(14,821)	-	(8,740,269)
-	-	-	9,064,700
-	(50,000)	-	-
<u>-</u>	<u>(40,928)</u>	<u>-</u>	<u>(341,272)</u>
<u>-</u>	<u>(90,928)</u>	<u>-</u>	<u>8,723,428</u>
2,877	(105,749)	-	(16,841)
<u>9,143</u>	<u>105,749</u>	<u>-</u>	<u>1,134,705</u>
<u>\$ 12,020</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,117,864</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011**

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ (16,841)
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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 decrease in the liabilities for the fiscal year was:

	73,934
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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:

Depreciation expense	(25,462)
Excess of capital outlay over depreciation expense	(25,462)

Change in net assets of governmental activities (Statement of Activities)	\$ <u>31,631</u>
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The accompanying notes are an integral part of the financial statements.

STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS - BUDGET AND ACTUAL
(BUDGETARY GAAP BASIS)
Year Ended June 30, 2011

	GENERAL FUND (18800)			
	Budgeted Amounts		Actual Amounts	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
State General Fund appropriations	\$ 9,064,700	\$ 9,064,700	\$ 9,064,700	\$ -
Miscellaneous	-	-	1,467	1,467
Other financing sources	-	-	50,000	50,000
Total revenues	9,064,700	9,064,700	9,116,167	51,467
EXPENDITURES				
Personnel services/benefits	3,153,600	4,018,600	3,389,103	629,497
Contractual services	717,900	686,800	655,109	31,691
Other	5,193,200	4,359,300	4,730,604	(371,304)
Total expenditures	9,064,700	9,064,700	8,774,816	289,884
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	\$ -	\$ -	341,351	\$ 341,351
NON-BUDGETED RECONCILING ITEMS				
Reversions to State General Fund			(300,344)	
NET CHANGE IN FUND BALANCE				
			\$ 41,007	

STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS - BUDGET AND ACTUAL
(BUDGETARY GAAP BASIS) (CONTINUED)
Year Ended June 30, 2011

	<u>LITTER CONTROL & BEAUTIFICATION FUND (26200)</u>			
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance From Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Other financing sources	\$ 1,072,200	\$ 1,072,200	\$ 1,003,699	\$ (68,501)
Total revenues	1,072,200	1,072,200	1,003,699	(68,501)
EXPENDITURES				
Personnel services/benefits	168,200	168,200	130,282	37,918
Contractual services	84,400	-	-	-
Other	819,600	904,000	828,393	75,607
Other financing uses	-	-	-	-
Total expenditures	<u>1,072,200</u>	<u>1,072,200</u>	<u>958,675</u>	<u>113,525</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,024</u>	<u>\$ 45,024</u>
NET CHANGE IN FUND BALANCE			<u>\$ 45,024</u>	

STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS - BUDGET AND ACTUAL
(BUDGETARY GAAP BASIS) (CONTINUED)
Year Ended June 30, 2011

<u>SCENIC BYWAYS FUND (03000)</u>				
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance From Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal funds	\$ 263,900	\$ 263,900	\$ -	(263,900)
Miscellaneous	-	-	777	777
Other financing sources	-	-	3,600	3,600
Total revenues	<u>263,900</u>	<u>263,900</u>	4,377	(259,523)
EXPENDITURES				
Other	<u>263,900</u>	<u>263,900</u>	<u>1,500</u>	<u>262,400</u>
Total expenditures	<u>263,900</u>	<u>263,900</u>	<u>1,500</u>	<u>262,400</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,877</u>	<u>\$ 2,877</u>
NET CHANGE IN FUND BALANCE			<u>\$ 2,877</u>	

STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS - BUDGET AND ACTUAL
(BUDGETARY GAAP BASIS) (CONTINUED)
Year Ended June 30, 2011

	<u>SPECIAL REVENUE ARRA FUND (89000)</u>			
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance From Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal funds	\$ -	\$ 250,000	\$ 250,000	\$ -
Total revenues	-	250,000	250,000	-
EXPENDITURES				
Contractual services	-	75,000	75,000	-
Other	-	175,000	175,000	-
Total expenditures	-	250,000	250,000	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
NET CHANGE IN FUND BALANCE			<u>\$ -</u>	

The accompanying notes are an integral part of the financial statements.

STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2011

	<u>Business-Type Activities</u>		<u>Total</u>
	<u>New Mexico Magazine (38200)</u>	<u>Tourism Enterprise (91900)</u>	
ASSETS			
Current:			
Investment in State General Fund Investment Pool	\$ -	\$ 12,387	\$ 12,387
Accounts Receivable, net	54,309	-	54,309
Inventories	65,781	16,567	82,348
Prepaid postage	<u>2,100</u>	<u>-</u>	<u>2,100</u>
Total current assets	122,190	28,954	151,144
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>\$ 122,190</u>	<u>\$ 28,954</u>	<u>\$ 151,144</u>
LIABILITIES			
Current:			
Bank overdraft	\$ 417,340	\$ -	\$ 417,340
Accounts payable	13,318	2,692	16,010
Accrued payroll and related liabilities	47,844	-	47,844
Deferred revenue	64,793	-	64,793
Unexpired subscriptions, current	878,552	-	878,552
Compensated absences, current	<u>48,230</u>	<u>-</u>	<u>48,230</u>
Total current liabilities	1,470,077	2,692	1,472,769
Non-current:			
Unexpired subscriptions, long-term	<u>213,356</u>	<u>-</u>	<u>213,356</u>
Total non-current liabilities	<u>213,356</u>	<u>-</u>	<u>213,356</u>
TOTAL LIABILITIES	1,683,433	2,692	1,686,125
NET ASSETS			
Invested in capital assets	-	-	-
Unrestricted	<u>(1,561,243)</u>	<u>26,262</u>	<u>(1,534,981)</u>
Total net assets	<u>(1,561,243)</u>	<u>26,262</u>	<u>(1,534,981)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 122,190</u>	<u>\$ 28,954</u>	<u>\$ 151,144</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND ASSETS - PROPRIETARY FUNDS
Year Ended June 30, 2011**

	<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	\$ 2,861,464	\$ -	\$ 2,861,464
By-product sales	-	15,966	15,966
Miscellaneous	2,519	-	2,519
Total operating revenues	2,863,983	15,966	2,879,949
Operating expenses:			
Personal services	1,110,138	-	1,110,138
Contractual services	713,916	-	713,916
Other costs	1,835,381	13,983	1,849,364
Total operating expenses	3,659,435	13,983	3,673,418
OPERATING INCOME (LOSS)	(795,452)	1,983	(793,469)
CHANGE IN NET ASSETS	(795,452)	1,983	(793,469)
TOTAL NET ASSETS, BEGINNING	(765,791)	24,279	(741,512)
TOTAL NET ASSETS, ENDING	<u>\$ (1,561,243)</u>	<u>\$ 26,262</u>	<u>\$ (1,534,981)</u>

The accompanying notes are an integral part of the financial statements.

STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2011

	<u>Business-Type Activities</u>		
	<u>New Mexico Magazine (38200)</u>	<u>Tourism Enterprise (91900)</u>	<u>Total</u>
CASH FLOWS FROM (USED BY)			
OPERATING ACTIVITIES			
Receipts from customers	\$ 2,992,045	\$ 15,966	\$ 3,008,011
Payments to suppliers	(2,526,012)	(6,780)	(2,532,792)
Payments to employees	(1,153,648)	-	(1,153,648)
Net cash from (used for) operating activities	(687,615)	9,186	(678,429)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(687,615)	9,186	(678,429)
CASH AND CASH EQUIVALENTS, BEGINNING	270,275	3,201	273,476
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ (417,340)</u>	<u>\$ 12,387</u>	<u>\$ (404,953)</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (795,452)	\$ 1,983	\$ (793,469)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Change in assets and liabilities:			
Receivables, net	142,530	-	142,530
Inventories	16,643	5,213	21,856
Accounts and other payables	(32,265)	2,692	(29,573)
Deferred revenue	(14,468)	-	(14,468)
Accrued payroll and compensated absences	(43,510)	-	(43,510)
Unexpired subscriptions	48,601	-	48,601
Due to other state agencies	(9,694)	(702)	(10,396)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>\$ (687,615)</u>	<u>\$ 9,186</u>	<u>\$ (678,429)</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1 – DEFINITION OF REPORTING ENTITY

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 Cabinet 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 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

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – DEFINITION OF REPORTING ENTITY (CONTINUED)

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].

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. 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
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

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.

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 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:

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Governmental activities – Tourism fees
- Proprietary activities – Advertising, subscriptions and merchandise sales

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
June 30, 2011

NOTE 2 - 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 -

Litter Control & Beautification Fund (SHARE Fund 26200) is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Litter Control & Beautification Fund was 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 awards grants to local governments to establish summer youth employment programs to aid in litter control and beautification projects. The program also conducts a public awareness and media campaign. Financing is provided from a special beautification fee of \$.50 per vehicle registration. Non-reverting fund. (Major Fund)

Scenic Byways Programs (SHARE Fund 03000) is used 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. Non-reverting fund. (Major Fund)

ARRA Fund (SHARE Fund 89000) The American Recovery and Reinvestment Act (ARRA) is used to account for federal grant funds received to assist the Department with New Mexico Tourism advertising. Non-reverting fund. (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:

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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)

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.

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2010, Chapter 6, Section 3, item M, "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:

- o 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.
- o 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.

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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.
- Formal budgetary integration is employed as a management control device during the fiscal year for the General and Special Revenue funds.

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 monitored by the State Treasurer. See Note 3 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, 2011, management estimated approximately 39% of subscriptions accounts receivable and 96% 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.

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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).

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

New Pronouncements

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), effective for reporting periods beginning after June 15, 2010. The statement establishes fund balance classifications, provides for a hierarchy of spending constraints for spendable resources and requires disclosure of non-spendable and spendable resources (see Governmental Fund Balances below).

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State.

Assigned – Amounts that are constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or, in some cases, by legislation.

Unassigned – All amounts not included in other spendable classifications.

As of June 30, 2011, the following funds had a fund balance: The Litter Control and Beautification Fund (26200) had a fund balance of \$910,855, of which all but \$266 was restricted for litter control projects in the State of New Mexico. The Scenic Byways Fund (0300) had a fund balance of \$12,020, all of which was restricted for the development of the statewide Marketing and Promotion Plan for New Mexico's scenic byways.

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.

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2011 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.

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - 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 restricted resources first for payment of expenditures when both restricted and unrestricted net assets are available.

Subsequent Events

Management evaluated subsequent events through December 13, 2011, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2011, but prior to December 13, 2011, that provided additional evidence about conditions that existed at June 30, 2011 have been recognized in the financial statements for the year ended June 30, 2011. Events or transactions that provided evidence about conditions that did not exist at June 30, 2011, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2011.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 3 - 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, 2011:

Fund	SHARE Fund No.	Maturities	Fair Value June 30, 2011
General	18800	1 day to 3 years	\$ 1,168,664
Litter Control and Beautification	26200	1 day to 3 years	1,180,132
Scenic Byways Fund	30000	1 day to 3 years	12,020
Capital Projects Fund	82300	1 day to 3 years	40,928
Special Revenue ARRA Fund	89000	1 day to 3 years	(2,090)
New Mexico Magazine	38200	1 day to 3 years	(417,340)
Tourism Enterprise	91900	1 day to 3 years	<u>12,387</u>
			<u>\$ 1,994,701</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 New Mexico State Treasurer's Office for the fiscal year ended June 30, 2011.

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.

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

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 - CASH (INVESTMENT IN STATE TREASURER'S INVESTMENT POOL)
(CONTINUED)

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.

NOTE 4 - ACCOUNTS RECEIVABLE

Business-type Activities

Accounts receivable at June 30, 2011 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	\$ 841,980	\$ 51,484	\$ 893,464
Less allowances for uncollectible accounts	<u>(819,357)</u>	<u>(19,798)</u>	<u>(839,155)</u>
Accounts receivable, net	<u>\$ 22,623</u>	<u>\$ 31,686</u>	<u>\$ 54,309</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
June 30, 2011**

NOTE 5 - 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. There were no interfund balances at June 30, 2011.

NOTE 6 - TRANSFERS IN/OUT

The capital projects fund transferred \$50,000 to the General Fund for an advertising promotion.

<u>Transfers In</u>	<u>Transfers Out</u>	<u>General Fund</u>
Capital Projects	\$ 50,000	\$ -
General Fund	<u>-</u>	<u>(50,000)</u>
Funds transfers total	<u>\$ 50,000</u>	<u>\$ (50,000)</u>

NOTE 7 - DUE FROM/TO OTHER STATE AGENCIES

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

Due From Other State Agencies

<u>Transfers 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	<u>\$ 95,678</u>	TRD/MVD Distribution for June 2011	39401	<u>\$ 95,678</u>
Total All Funds		<u>\$ 95,678</u>			<u>\$ 95,678</u>

**STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 7 - DUE FROM/TO OTHER STATE AGENCIES (CONTINUED)

Due To Other State Agencies

Transfers To Other State Agencies	Fund No.	Amount	Due From Agency/Purpose	Fund No.	Amount
General Fund	18800	\$ 10,451	NM Corrections/Supplies (Agency 770)	07700	\$ 10,451
Litter Control and Beautification	26200	<u>10,890</u>	NM Corrections/Supplies (Agency 770)	07700	<u>10,890</u>
Total All Funds		<u>\$ 21,341</u>			<u>\$ 21,341</u>

NOTE 8 - 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 \$82,348 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
June 30, 2011

NOTE 9 – CAPITAL ASSETS

A summary of changes in capital assets for governmental activities follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Equipment & Machinery	\$ 27,156	\$ -	\$ -	\$ 27,156
Furniture & Fixtures	13,253	-	-	13,253
Data Processing & Software	31,303	-	-	31,303
Vehicles	<u>130,492</u>	<u>-</u>	<u>-</u>	<u>130,492</u>
 Total capital assets	 <u>202,204</u>	 <u>-</u>	 <u>-</u>	 <u>202,204</u>
 Less accumulated depreciation for:				
Equipment & Machinery	(5,934)	(2,391)	-	(8,325)
Furniture & Fixtures	(10,208)	(3,045)	-	(13,253)
Data Processing & Software	(10,863)	(6,977)	-	(17,840)
Vehicles	<u>(66,799)</u>	<u>(13,049)</u>	<u>-</u>	<u>(79,848)</u>
 Total accumulated depreciation	 <u>(93,804)</u>	 <u>(25,462)</u>	 <u>-</u>	 <u>(119,266)</u>
 Governmental activities capital assets, net	 <u>\$ 108,400</u>	 <u>\$ (25,462)</u>	 <u>\$ -</u>	 <u>\$ 82,938</u>

**STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 9 – CAPITAL ASSETS (CONTINUED)

A summary of changes in capital assets for business-type activities follows:

<u>Business-type Activities</u>	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
Equipment & Machinery	\$ 2,866	\$ -	\$ -	\$ 2,866
Furniture & Fixtures	1,401	-	-	1,401
Data Processing & Software	1,637	-	-	1,637
Other	-	-	-	-
	<u>5,904</u>	<u>-</u>	<u>-</u>	<u>5,904</u>
Less accumulated depreciation for:				
Equipment & Machinery	(2,866)	-	-	(2,866)
Furniture & Fixtures	(1,401)	-	-	(1,401)
Data Processing & Software	(1,637)	-	-	(1,637)
	<u>(5,904)</u>	<u>-</u>	<u>-</u>	<u>(5,904)</u>
Business-type activities capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The depreciation expense for the government activities and the business-type activities was \$25,462 and \$0, respectively. The Department did not have any debt related to capital assets as of June 30, 2011. In the Statement of Activities, depreciation expense is captured in Tourism categories for the governmental activities, respectively.

NOTE 10 - COMPENSATED ABSENCES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2011:

Governmental Activities:

<u>Balance June 30, 2010</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance June 30, 2011</u>	<u>Amounts Due Within One Year</u>
<u>\$ 249,738</u>	<u>\$ 142,694</u>	<u>\$ (216,628)</u>	<u>\$ 175,804</u>	<u>\$ 173,601</u>

**STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 10 - COMPENSATED ABSENCES (CONTINUED)

Business-type Activities:

<u>Balance</u> <u>June 30, 2010</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Amounts Due</u> <u>Within One Year</u>
<u>\$ 71,175</u>	<u>\$ 45,159</u>	<u>\$ (68,104)</u>	<u>\$48,230</u>	<u>\$ 48,230</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%.

NOTE 11 - REVERSIONS

In accordance with statute Section 6-5-10(A) NMSA 1978, all unreserved, undesignated fund balances in reverting funds as of June 30 shall revert. A reversion of \$341,272 was recognized for fiscal year 2011. \$137,433 is payable at June 30, 2011 to the State General Fund. Reversions due to the State General Fund are due by September 30, 2011. This payable may be adjusted within 45 days of the release of this audit by the New Mexico Office of the State Auditor.

NOTE 12 - PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

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

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, 2011, 2010 and 2009 were \$469,502, \$527,680 and \$655,243, respectively, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

Plan Description

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

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

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

Funding Policy

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee's annual salary; each participating employee was required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 through June 30, 2013, the contribution rates for employees and employers will rise as follows:

**STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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

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>
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.

The Department's contributions to the RHCA for the years ended June 30, 2011, 2010 and 2009 were \$53,847, \$47,467 and \$50,863, respectively, which equal the required contributions for each year.

NOTE 14 - 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, 2011 are as follows:

Year ending June 30, 2012	<u>\$ 15,416</u>
Total	<u>\$ 15,416</u>

Lease expense under all long-term operating leases for the year ended June 30, 2011 was \$34,247.

NOTE 15 - OTHER FINANCING SOURCES (USES)

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

Transfers In From Other State Agencies – Governmental Funds

<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>
General Fund (General Appropriations)	18800	<u>\$9,064,700</u>	Dept. of Finance and Administration – 34100	85300	<u>\$(9,064,700)</u>
Total		<u>\$9,064,700</u>			<u>\$(9,064,700)</u>

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 16 - RISK MANAGEMENT

The Department obtains coverage through the Risk Management Division of the State of New Mexico General Services Department. This coverage includes public liability, property, workers compensation, surety bond unemployment compensation and group health insurance. These coverages are designed to satisfy the requirements of the State Tort Claims Act. The maximum limits provided by the Tort Claims Act are \$1,050,000 per occurrence.

The Department had no significant reductions in insurance coverage from coverage in the prior year. In the fiscal years ended June 30, 2011, 2010 and 2009, there were no settlements that exceeded insurance coverage.

NOTE 17 – GOING CONCERN

During the fiscal year ended June 30, 2011, the New Mexico Magazine (the Magazine), a business-type fund (Fund 38200) of the Department, generated an operating loss of \$795,452, had bank overdrafts of \$417,340 and had an overall negative net asset balance of \$1,561,243. Large operating losses have been generated by the Magazine repeatedly the past three years. The Magazine's recurring operating deficits, deficit net asset balance and lack of assets raise substantial doubt about its ability to continue as a going concern.

Planned actions included a reduction of workforce of the Magazine. The Magazine has reduced the number of employees from 17 to 13 as of the date of this report. In addition, the Magazine is being reviewed by Management of the Department for opportunities to increase profitability. Management has also requested appropriation money from the New Mexico Legislature, but it is unknown if this request will be successful.

General operations of the Department other than those listed above in regards to the Magazine are in sound financial position. The Department's governmental activities had a positive net asset balance of \$974,998 (restricted for specific purposes of the Department).

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR CAPITAL PROJECTS FUND (82300) -
BUDGET AND ACTUAL (BUDGETARY GAAP BASIS)
Year Ended June 30, 2011

	Life-to-Date Budgeted Amounts	FY11 Actual Amounts	Life-to-Date Actual Amounts	Variance Over (Under)
REVENUES				
State General Fund appropriations	\$ 1,016,792	-	\$ 1,016,792	\$ -
Total revenues	1,016,792	-	1,016,792	-
EXPENDITURES - current				
Contractual services	15,000	-	11,845	3,155
Other	869,792	14,821	858,654	11,138
Other financing uses	132,000	90,928	113,435	18,565
TOTAL EXPENDITURES	\$ 1,016,792	\$ 105,749	\$ 983,934	\$ 32,858
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER EXPENDITURES AND OTHER FUNDING SOURCES (USES))				
		<u>\$ (105,749)</u>		

**STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES - ENTERPRISE FUNDS -
BUDGET AND ACTUAL (BUDGETARY GAAP BASIS)
Year Ended June 30, 2011**

	NEW MEXICO MAGAZINE (38200)			
	Budgeted Amounts		Actual Amounts	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
State General Fund	\$ -	\$ -	\$ -	\$ -
Charges for services	4,339,300	4,339,300	2,863,983	(1,475,317)
Other financing sources	-	-	-	-
Total revenues	4,339,300	4,339,300	2,863,983	(1,475,317)
EXPENDITURES - current				
Personnel services/benefits	1,194,800	1,194,800	1,110,138	84,662
Contractual services	923,400	923,400	713,916	209,484
Other	2,221,100	2,221,100	1,835,381	385,719
Other financing uses	-	-	-	-
Total expenditures	4,339,300	4,339,300	3,659,435	679,865
CHANGE IN NET ASSETS	\$ -	\$ -	\$ (795,452)	\$ (795,452)

STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES - ENTERPRISE FUNDS -
BUDGET AND ACTUAL (BUDGETARY GAAP BASIS) (CONTINUED)
Year Ended June 30, 2011

	TOURISM ENTERPRISE (91900)			
	Budgeted Amounts		Actual Amounts	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 90,000	\$ 90,000	\$ 15,966	\$ (74,034)
Total revenues	90,000	90,000	15,966	(74,034)
EXPENDITURES - current				
Other	-	90,000	13,983	76,017
Total expenditures	-	90,000	13,983	76,017
CHANGE IN NET ASSETS	\$ 90,000	\$ -	\$ 1,983	\$ 1,983

STATE OF NEW MEXICO TOURISM DEPARTMENT
 SCHEDULE OF SPECIAL APPROPRIATIONS
 Year Ended June 30, 2011

Fund	Class	Purpose	Special Appropriation	Funds Revert
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	75568	IT for NM Bowl	2007, Chap 42, Sec 68, Item 699	6/30/2011
Total				

Appropriation Amount	Expenditures to Date	Amount Received to Date	Amount Received in FY2011	Reserved for Expenditure	Reserved for Reversion
\$ 113,435	\$ 113,435	\$ 113,435	\$ -	\$ -	\$ -
75,000	75,000	75,000	-	-	-
100,000	100,000	100,000	-	-	-
25,000	25,000	25,000	-	-	-
200,000	200,000	200,000	-	-	-
			<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**STATE OF NEW MEXICO TOURISM DEPARTMENT
SCHEDULE OF JOINT POWERS AGREEMENTS
Year Ended June 30, 2011**

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

New Mexico Department of Corrections (NMCD)

For the Fulfillment Center and toll-free telemarketing

New Mexico Department of Transportation,
New Mexico Taxation and Revenue Department

For the National Scenic Byways Historical Route 66

Georgia O'Keeffe Museum (GOK)

New Mexico Dept. of Finance and Administration

For media production, education & training facilities programs for O'Keefe Museum Website.

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.

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.

City of Raton

New Mexico Tourism Dept./Raton Visitor Information Center

Define and clarify the responsibilities of the parties as tenants of the Center.

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.

City of Santa Fe

To pay for operations of the Santa Fe Visitor's Information Center

McKinley County

Ensure proper administration for Gallup Intertribal Ceremonial

Responsible Party	Dates of Agreement		Amount Applicable	Amount Contributed	Audit Responsibility
	Beginning	Ending			
NMCD	2/15/2008	indefinite	\$ 140,000	\$ 75,338	NMTD
NMTD	3/12/2007	indefinite	\$ -	\$ -	NMTD
GOK	5/15/2008	6/30/2010	\$ 47,000	\$ 47,000	NMTD
NMTD	12/18/2008	indefinite	\$ 12,500	\$ 12,500	NMTD
NMTD	12/18/2008	indefinite	\$ 12,500	\$ 12,500	NMTD
NMTD	12/9/2008	indefinite	\$ -	\$ -	NMTD
NMTD	7/11/2008	6/30/2011	\$ 75,000	\$ 75,000	NMTD
NMTD	7/1/2010	6/30/2011	\$ 25,000	\$ -	NMTD
NMTD	7/1/2010	6/30/2011	\$ 83,204	\$ 83,204	NMTD

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Ms. Monique Jacobson, 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 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, 2011, and have issued our report thereon dated December 13, 2011. 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.

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 deficiencies described in the accompanying schedule of findings and responses as findings 08-04 and 11-02 to be significant deficiencies.

Compliance and Other Matters

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

We also noted 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 is described in the accompanying schedule of findings and responses as findings 09-02, 09-03 and 11-01.

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.

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 pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Albuquerque, New Mexico
December 13, 2011

**STATE OF NEW MEXICO TOURISM DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011**

Section I - Financial Statement Findings

Finding 08-01 Internal Controls over Financial Reporting (Material Weakness) (Repeated)

Condition: General ledger accounts are not being reconciled during the year. When we obtained the trial balance as of June 30, 2011, many of the balances had not changed at all from the prior year's audited numbers. The unreconciled accounts are as follows:

- Accounts receivable from advertisers and subscribers to the New Mexico Magazine
- Amounts due from other state agencies
- Balances relating to inventory held at the New Mexico Magazine's fulfillment center and inventory held in the Visitors' Information Centers across the state.
- Capital assets for both governmental and enterprise funds, including depreciation expense
- Prepaid expenses
- Interfund balances
- Amounts due to other state agencies
- Deferred revenues for advertisers and subscribers to the New Mexico Magazine

Criteria: The New Mexico Manual of Model Accounting Practices (Volume 1, Chapter 8, Section 3.2) requires monthly reconciliations of all accounts. Adequate and accurate information cannot be presented in a timely manner when accounts are not being reconciled.

Cause: The Department has not implemented procedures through which individuals are assigned account reconciliations on a monthly basis.

Effect: Accounts balances are not representative of the financial position of the Department. Lack of reporting current financial information in a timely manner can significantly impact management's ability to effectively guide the Department and the divisions within the Department. Further, errors (including potential fraud) can go unnoticed and may not be prevented or discovered when accurate financial information is not being aggregated and analyzed during the year.

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: The Tourism Department accepts the auditor's recommendations and will implement processes to address the auditor's recommendations.

STATE OF NEW MEXICO TOURISM DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

Section I - Financial Statement Findings (continued)

Finding 08-04 Over-expended Budgets (Significant Deficiency) (Repeated and Modified)

Condition: The Department over-expended its budget in the General Fund's "other expense" category by \$371,304.

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 are made in a timely manner to avoid over-expenditure of budgets.

Management's Response: The Tourism Department accepts the auditor's recommendations and, with the direction of the Cabinet Secretary, is in the process of implementing weekly budget and expense reviews to ensure the Department does not exceed budget in any category.

Finding 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 proper segregation of duties 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
June 30, 2011

Section I - Financial Statement Findings (continued)

Finding 09-02 Lack of Adequate Segregation of Duties (Control Deficiency) (Repeated and Modified)

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 quantity that it is not cost effective to have more than one person opening it.

Finding 09-03 Non-Compliance with the Per Diem and Mileage Act (Control Deficiency) (Repeated and Modified)

Condition: During our testwork over 38 per diem expenditures, we discovered the following control deficiencies:

- In one instance, an individual signed and approved his own travel authorization form.
- For one per diem expenditure, evidence of authorization was not able to be located.
- One individual did not obtain a signature of a supervisor on her travel authorization request.

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, and this information should be kept as support for per diem expenditures.

Cause: The Department is not adhering to the policy of requiring signatures on per diem payments, and supporting documentation is not being kept properly.

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 per diem payments are properly approved, and that evidence of such approval be properly stored at the Department.

Management's Response: The Tourism Department accepts the auditor's recommendations and will implement processes to address the auditor's recommendations.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011**

Section I - Financial Statement Findings (continued)

Finding 11-01 Payroll and Human Resources Documentation (Control Deficiency)

Condition: During our testwork over 38 payroll expenditures and employee files, we discovered that two individuals did not have signed IRS I-9 Forms in their personnel files, and one individual did not have a signed IRS W-4 Form in his personnel file.

Criteria: The Immigration Reform and Control Act of 1986 required employers to verify that all newly-hired employees are eligible to work in the United States. Per NMSA 1978, Chapter 10-9-10, "state agencies shall have state employees re-elect benefits and W-4 information on an annual basis or upon change in eligibility." Employers are responsible for ensuring that the forms are completed correctly, and it is necessary to retain this information for all employees.

Cause: The Department is not retaining employee documentation properly.

Effect: The Department is out of compliance with NMSA 1978 and federal employment regulations.

Recommendation: We recommend that employee files are reviewed on a regular basis to ensure that the required forms are present and properly filled out.

Management's Response: The Tourism Department accepts the auditor's recommendations. In November 2011, the Tourism Department retained the services of the New Mexico State Personnel Office (SPO) to perform all human resources functions for the Department. One of the first items that SPO will be performing is a review of Tourism's employee files to ensure they are in compliance with NMSA 1978 and federal employment regulations.

Finding 11-02 Capital Asset Monitoring and Annual Inventory (Significant Deficiency)

Condition: The Department is not performing an annual asset observation, and up-to-date capital asset information is not being actively monitored on either a spreadsheet or with software.

Criteria: State agencies shall record and report state owned capital assets in accordance with state law and GAAP, as described in New Mexico's Manual of Model Accounting Practices, Section FIN 6, authorized by Section 6-5-2, 13-6-1, NMSA 1978 and GSD Rule 88-101. In addition, Section 12-6-10(A) NMSA 1978 requires each agency to conduct an annual physical inventory of movable property at the end of the fiscal year.

Cause: The Department does not currently have a process in place through which its assets are inventoried at least once a year. The Department is no longer utilizing its capital asset software to calculate depreciation on all of its assets.

Effect: The risk that capital assets could be misappropriated is increased due to this condition. Also, the Department is not able to report its capital asset balances, with accumulated depreciation, in a timely manner.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011**

Section I - Financial Statement Findings (continued)

Finding 11-02 Capital Asset Monitoring and Annual Inventory (Significant Deficiency)

Recommendation: We recommend that all of the Department's capital assets be observed at least once a year, and that this observation be documented and reviewed for accuracy. The Department should also develop an effective spreadsheet to track capital assets, or it should consider utilizing capital asset management software.

Management's Response: The Tourism Department accepts the auditor's recommendations and has begun processes to consistently and accurately track and reconcile the Tourism Department's capital assets.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2011**

Section I - Summary Schedule of Prior Year Audit Findings

Finding 08-01 Internal Controls over Financial Reporting (Material Weakness) – Repeated and Modified

Finding 08-04 Over-Expended Budgets (Significant Deficiency) – Repeated and Modified

Finding 09-02 Lack of Adequate Segregation of Duties (Control Deficiency) – Repeated

Finding 09-03 Non-Compliance with the Per Diem and Mileage Act (Control Deficiency) – Repeated and Modified

Finding 09-06 Lack of Controls over Payroll Processing (Control Deficiency) – Resolved

Finding 10-01 Procurement (Control Deficiency) – Resolved

**STATE OF NEW MEXICO TOURISM DEPARTMENT
EXIT CONFERENCE
June 30, 2011**

An exit conference was held with the Department on December 13, 2011 at the Department's offices in Santa Fe, New Mexico. In attendance were:

STATE OF NEW MEXICO TOURISM DEPARTMENT

Monique Jacobson, Cabinet Secretary
Therese Trujillo, Director, Administrative Services Division
Elizabeth Romero-Eoff, Chief Financial Officer
Denise Lente, Accountant and Auditor

CLIFTON GUNDERSON LLP

Raul J. Anaya, CPA, CGFM, CFE, Senior Manager
Ryan W. Jones, CPA, Senior Associate

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.