

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

**FINANCIAL STATEMENTS
June 30, 2012**

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**STATE OF NEW MEXICO TOURISM DEPARTMENT
OFFICIAL ROSTER
June 30, 2012**

Monique Jacobson, Cabinet Secretary

Richard Pickering, Director, Administrative Services

Isabel Duran, ASD Deputy Director



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Independent Auditors' 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, 2012, 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, 2012, 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.

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 and each major fund of the Department as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons 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, 2012 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparisons 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 13, 2012

**STATE OF NEW MEXICO TOURISM DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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, 2012. 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 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 2012. 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, 2012**

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, 2012 are \$1,424,677: \$1,098,121 in Governmental and \$326,556 in Business-type activities. The net assets are restricted, mainly for capital projects and special revenues. The unrestricted net assets in Governmental Activities were \$(138,011) and in Business-type activities were \$326,556 at the end of the fiscal year.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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

Governmental

Governmental

	<u>FY 2012</u>	<u>FY2011</u>	<u>Amount Change</u>	<u>Total % Change</u>
Assets:				
Current and other assets	\$ 3,587,447	\$ 2,632,832	\$ 954,615	36.26%
Capital assets, net	<u>60,521</u>	<u>82,938</u>	<u>(22,417)</u>	-27%
Total assets	<u>\$ 3,647,968</u>	<u>\$ 2,715,770</u>	<u>\$ 932,198</u>	34%
Liabilities:				
Current liabilities	\$ 2,547,880	\$ 1,688,569	\$ 859,311	51%
Long-term liabilities	<u>1,967</u>	<u>2,203</u>	<u>(236)</u>	-11%
Total liabilities	<u>2,549,847</u>	<u>1,690,772</u>	<u>859,075</u>	51%
Net assets:				
Invested in capital assets	60,521	82,938	(22,417)	-27%
Restricted	1,175,611	1,117,864	57,747	5%
Unrestricted	<u>(138,011)</u>	<u>(175,804)</u>	<u>37,793</u>	-21%
Total net assets	<u>1,098,121</u>	<u>1,024,998</u>	<u>73,123</u>	7%
Total liabilities and net assets	<u>\$ 3,647,968</u>	<u>\$ 2,715,770</u>	<u>\$ 932,198</u>	34%

**STATE OF NEW MEXICO TOURISM DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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

Business-type

	<u>FY 2012</u>	<u>FY2011</u>	<u>Amount Change</u>	<u>Total % Change</u>
Assets:				
Current and other assets	\$ 1,608,403	\$ 151,144	\$ 1,457,259	964%
Total assets	<u>\$ 1,608,403</u>	<u>\$ 151,144</u>	<u>\$ 1,457,259</u>	964%
Liabilities:				
Current liabilities	\$ 1,036,320	\$ 1,472,769	\$ (436,449)	-30%
Long-term liabilities	<u>245,527</u>	<u>213,356</u>	<u>32,171</u>	15%
Total liabilities	<u>1,281,847</u>	<u>1,686,125</u>	<u>(404,278)</u>	-24%
Net assets:				
Unrestricted deficit	<u>326,556</u>	<u>(1,534,981)</u>	<u>1,861,537</u>	-121%
Total net assets	<u>326,556</u>	<u>(1,534,981)</u>	<u>1,861,537</u>	-121%
Total liabilities and net assets	<u>\$ 1,608,403</u>	<u>\$ 151,144</u>	<u>\$ 1,457,259</u>	964%

The Department's total assets are comprised of \$60,521 in capital assets and \$5,195,850 in other assets, for a total asset balance of \$5,256,371. The overall increase in total assets from the previous fiscal year is \$2,389,457. Liabilities are also broken out into two segments: current liabilities and non-current liabilities. The total amount of current liabilities is \$3,584,200, an increase of 13.4% from the prior year balance of \$3,161,338. 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 non-current liabilities is \$247,494 at June 30, 2012.

The Department's Activities: The table below summarizes the Department's activities for the fiscal years ending June 30, 2012 and 2011. Total change in net assets from the previous fiscal year was an increase of \$1,934,660.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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

Governmental

	<u>FY 2012</u>	<u>FY2011</u>	<u>Amount Change</u>	<u>Total % Change</u>
General revenues and transfers	\$ 9,074,551	\$ 9,732,971	\$ (658,420)	-7%
Total revenue	9,074,551	9,732,971	(658,420)	-7%
Expenses	(9,001,428)	(9,701,340)	699,912	-7%
Change in net assets	73,123	31,631	41,492	131%
Net assets, beginning	1,024,998	993,367	31,631	3%
Net assets, ending	<u>\$ 1,098,121</u>	<u>\$ 1,024,998</u>	<u>\$ 73,123</u>	7%

Business-type

	<u>FY 2012</u>	<u>FY2011</u>	<u>Amount Change</u>	<u>Total % Change</u>
Program revenues	\$ 4,589,401	\$ 2,879,949	\$ 1,709,452	59%
Total revenue	4,589,401	2,879,949	1,709,452	59%
Expenses	(2,727,864)	(3,673,418)	945,554	-26%
Change in net assets	1,861,537	(793,469)	2,655,006	-335%
Net assets, beginning	(1,534,981)	(741,512)	(793,469)	107%
Net assets, ending	<u>\$ 326,556</u>	<u>\$ (1,534,981)</u>	<u>\$ 1,861,537</u>	-121%

**STATE OF NEW MEXICO TOURISM DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

Information on Individual Funds

The State of New Mexico Tourism Department is responsible for the management of seven 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 Capital Projects Fund receives funding from the New Mexico 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-12	Balance, 30-Jun-11	Total % Change
General Fund	18800	\$ 2,040,986	\$ 1,168,664	75%
Litter Control and Beautification Fund	26200	\$ 1,298,064	\$ 1,180,132	10%
Scenic Byways Fund	30000	\$ 16,670	\$ 12,020	39%
Capital Projects Fund	82300	\$ -	\$ 40,928	-100%
Special Revenue ARRA Fund	89000	\$ -	\$ (2,090)	-100%
New Mexico Magazine Fund	38200	\$ 1,378,196	\$ (417,340)	-431%
Tourism Enterprise Fund	91900	\$ 8,819	\$ 12,387	-29%

**STATE OF NEW MEXICO TOURISM DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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-12	Fiscal Year Ended 30-Jun-11	
General Fund	18800	\$ 8,268,636	\$ 9,116,167	-9%
Litter Control and Beautification Fund	26200	1,049,906	1,003,699	5%
Scenic Byways Fund	30000	5,325	4,377	22%
Capital Projects Fund	82300	-	-	0%
Special Revenue ARRA Fund	89000	-	250,000	-100%
New Mexico Magazine Fund	38200	4,566,172	2,863,983	59%
Tourism Enterprise Fund	91900	23,229	15,966	45%
Total revenues		<u>\$ 13,913,268</u>	<u>\$ 13,254,192</u>	

Fund Name	Fund Code	Expenditures		Total % Change
		Fiscal Year Ended 30-Jun-12	Fiscal Year Ended 30-Jun-11	
General Fund	18800	\$ 8,329,794	\$ 9,075,160	-9%
Litter Control and Beautification Fund	26200	936,326	958,675	-3%
Scenic Byways Fund	30000	-	1,500	-100%
Capital Projects Fund	82300	-	105,749	-100%
Special Revenue ARRA Fund	89000	-	250,000	-100%
New Mexico Magazine Fund	38200	2,702,755	3,659,435	-27%
Tourism Enterprise Fund	91900	25,109	13,983	80%
Total expenses		<u>\$ 11,993,984</u>	<u>\$ 14,064,502</u>	

**STATE OF NEW MEXICO TOURISM DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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 \$188,022.

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, 2012 is \$60,521 for the governmental activities. Business-type capital assets were fully depreciated at June 30, 2012. For 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 had no long-term debt activity during fiscal year 2012. Long-term liabilities recorded for the Department consist of long-term, unexpired magazine subscriptions.

Anticipated Future Conditions and Changes

The Department was awarded \$8,300,700 in State General Fund appropriations for fiscal year 2013.

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, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Investment in State General Fund Investment Pool	\$ 3,355,720	\$ 1,387,015	\$ 4,742,735
Due from other agencies	92,736	-	92,736
Receivables, net	26,785	133,059	159,844
Due from (to) other funds	44,221	(44,221)	-
Prepaid expenses	67,985	40,882	108,867
Inventories	-	91,668	91,668
	<u>3,587,447</u>	<u>1,608,403</u>	<u>5,195,850</u>
Total current assets			
Non-current:			
Capital assets	202,204	5,904	208,108
Less accumulated depreciation	(141,683)	(5,904)	(147,587)
	<u>60,521</u>	<u>-</u>	<u>60,521</u>
Total non-current assets			
TOTAL ASSETS	<u>\$ 3,647,968</u>	<u>\$ 1,608,403</u>	<u>\$ 5,256,371</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 2,178,632	\$ 60,436	\$ 2,239,068
Accrued payroll and related liabilities	103,439	36,636	140,075
Due to State General Fund	129,765	-	129,765
Deferred revenue	-	68,638	68,638
Compensated absences	136,044	20,497	156,541
Unexpired subscriptions	-	850,113	850,113
	<u>2,547,880</u>	<u>1,036,320</u>	<u>3,584,200</u>
Total current liabilities			
Long-term liabilities:			
Compensated absences	1,967	-	1,967
Unexpired subscriptions, long-term	-	245,527	245,527
	<u>2,549,847</u>	<u>1,281,847</u>	<u>3,831,694</u>
Total liabilities			
NET ASSETS			
Invested in capital assets	60,521	-	60,521
Restricted	1,175,611	-	1,175,611
Unrestricted (deficit)	(138,011)	326,556	188,545
	<u>1,098,121</u>	<u>326,556</u>	<u>1,424,677</u>
Total net assets			
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,647,968</u>	<u>\$ 1,608,403</u>	<u>\$ 5,256,371</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, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Tourism	\$ 9,001,428	\$ -	\$ -	\$ -
Total governmental activities	9,001,428	-	-	-
BUSINESS-TYPE ACTIVITIES				
Publishing	2,727,864	3,029,401	-	-
Total business-type activities	2,727,864	3,029,401	-	-
TOTAL PRIMARY GOVERNMENT	\$ 11,729,292	\$ 3,029,401	\$ -	\$ -

	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
	\$ (9,001,428)	\$ -	\$ (9,001,428)
	(9,001,428)	-	(9,001,428)
	-	301,537	301,537
	-	301,537	301,537
	(9,001,428)	301,537	(8,699,891)
General revenues:			
Beautification fee	5,025	-	5,025
Other registration fees	1,018,964	-	1,018,964
Miscellaneous	31,378	-	31,378
Transfers:			
Reversion to the State General Fund FY12	(249,316)	-	(249,316)
State general fund appropriation	8,268,500	1,560,000	9,828,500
Total general revenues and transfers	<u>9,074,551</u>	<u>1,560,000</u>	<u>10,634,551</u>
Change in net assets	73,123	1,861,537	1,934,660
Beginning net assets	<u>1,024,998</u>	<u>(1,534,981)</u>	<u>(509,983)</u>
Ending net assets	<u>\$ 1,098,121</u>	<u>\$ 326,556</u>	<u>\$ 1,424,677</u>

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

STATE OF NEW MEXICO TOURISM DEPARTMENT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

	General Fund 18800	Litter Control and Beautification Fund 26200
ASSETS		
Investment in State General Fund		
Investment Pool	\$ 2,040,986	\$ 1,298,064
Due from other funds	44,221	-
Due from other agencies	-	92,061
Other Receivables	-	26,785
Prepaid items	67,985	-
TOTAL ASSETS	\$ 2,153,192	\$ 1,416,910
LIABILITIES		
Accounts payable	\$ 1,856,251	\$ 322,381
Accrued payroll and related liabilities	99,191	4,248
Due to other state agencies	-	-
Due to State General Fund	129,765	-
Total liabilities	2,085,207	326,629
FUND BALANCES		
Nonspendable:		
Prepaid items	67,985	-
Restricted	-	1,090,281
Total fund balances	67,985	1,090,281
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,153,192	\$ 1,416,910

Major Funds			
Scenic Byways Fund 03000	Capital Projects Fund 82300	Special Revenue ARRA Fund 89000	Total Governmental Funds
\$ 16,670	\$ -	\$ -	\$ 3,355,720
-	-	-	44,221
675	-	-	92,736
-	-	-	26,785
-	-	-	67,985
<u>\$ 17,345</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,587,447</u>
\$ -	\$ -	\$ -	\$ 2,178,632
-	-	-	103,439
-	-	-	-
-	-	-	129,765
<u>-</u>	<u>-</u>	<u>-</u>	<u>2,411,836</u>
-	-	-	67,985
<u>17,345</u>	<u>-</u>	<u>-</u>	<u>1,107,626</u>
<u>17,345</u>	<u>-</u>	<u>-</u>	<u>1,175,611</u>
<u>\$ 17,345</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,587,447</u>

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

**STATE OF NEW MEXICO TOURISM DEPARTMENT
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
June 30, 2012**

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	\$ 1,175,611
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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>(141,683)</u>

Total capital assets	<u>60,521</u>
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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>(138,011)</u>
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Net assets of governmental activities (Statement of Net Assets)	<u>\$ 1,098,121</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, 2012

	General Fund 18800	Litter Control and Beautification Fund 26200
REVENUES		
Beautification fee	\$ -	\$ -
Other registration fees	-	1,018,964
Miscellaneous	136	30,942
Total revenues	136	1,049,906
EXPENDITURES		
Tourism	8,080,478	936,326
Total expenditures	8,080,478	936,326
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(8,080,342)	113,580
OTHER FINANCING SOURCES (USES)		
State General Fund appropriations	8,268,500	-
Reversion to State General Fund 2012 fiscal year	(249,316)	-
Total other financing sources (uses)	8,019,184	-
NET CHANGE IN FUND BALANCE	(61,158)	113,580
FUND BALANCES, BEGINNING OF YEAR	129,143	976,701
FUND BALANCES, END OF YEAR	\$ 67,985	\$ 1,090,281

Major Funds

Scenic Byways Fund 03000	Capital Projects Fund 82300	Special Revenue ARRA Fund 89000	Total Governmental Funds
5,025	\$ -	\$ -	\$ 5,025
-	-	-	1,018,964
<u>300</u>	<u>-</u>	<u>-</u>	<u>31,378</u>
5,325	-	-	\$ 1,055,367
-	-	-	<u>9,016,804</u>
-	-	-	9,016,804
5,325	-	-	(7,961,437)
-	-	-	8,268,500
<u>-</u>	<u>-</u>	<u>-</u>	<u>(249,316)</u>
-	-	-	<u>8,019,184</u>
5,325	-	-	57,747
<u>12,020</u>	<u>-</u>	<u>-</u>	<u>1,117,864</u>
<u>\$ 17,345</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,175,611</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, 2012

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ 57,747
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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:	37,793
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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:

Capital outlay	-
Depreciation expense	<u>(22,417)</u>
Excess of capital outlay over depreciation expense	<u>(22,417)</u>

Change in net assets of governmental activities (Statement of Activities)	\$ <u>73,123</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 BASIS)
Year Ended June 30, 2012

	GENERAL FUND (18800)			
	Budgeted Amounts		Actual Amounts	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
State General Fund appropriations	\$ 8,268,500	\$ 8,268,500	\$ 8,268,500	\$ -
Miscellaneous	-	-	136	136
Other financing sources	-	-	-	-
Total revenues	8,268,500	8,268,500	8,268,636	136
EXPENDITURES				
Personnel services/benefits	2,753,800	2,543,800	2,470,632	73,168
Contractual services	547,300	566,364	526,954	39,410
Other	4,967,400	5,158,336	5,082,892	75,444
Total expenditures	8,268,500	8,268,500	8,080,478	188,022
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	\$ -	\$ -	188,158	\$ 188,158
NON-BUDGETED RECONCILING ITEMS				
Reversions to State General Fund			(249,316)	
NET CHANGE IN FUND BALANCE				
			\$ (61,158)	

STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS - BUDGET AND ACTUAL
(BUDGETARY BASIS) (CONTINUED)
Year Ended June 30, 2012

	<u>LITTER CONTROL & BEAUTIFICATION FUND (26200)</u>			
	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance From</u> <u>Final Budget</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Other registration fees	\$ 1,306,500	\$ 1,231,800	\$ 1,018,964	\$ (212,836)
Miscellaneous	-	-	30,942	30,942
Budgeted fund balance	-	74,700	-	(74,700)
Total revenues	1,306,500	1,306,500	1,049,906	(256,594)
EXPENDITURES				
Personnel services/benefits	195,300	195,300	122,351	72,949
Contractual services	52,300	127,000	50,448	76,552
Other	1,058,900	984,200	763,527	220,673
Other financing uses	-	-	-	-
Total expenditures	1,306,500	1,306,500	936,326	370,174
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	\$ -	\$ -	\$ 113,580	\$ 113,580
NET CHANGE IN FUND BALANCE				
			\$ 113,580	

STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS - BUDGET AND ACTUAL
(BUDGETARY BASIS) (CONTINUED)
Year Ended June 30, 2012

	<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				
Miscellaneous	\$ -	\$ -	\$ 300	\$ 300
Other financing sources	<u>207,200</u>	<u>-</u>	<u>5,025</u>	<u>5,025</u>
Total revenues	207,200	-	5,325	5,325
EXPENDITURES				
Other financing uses	<u>207,200</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>207,200</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,325</u>	<u>\$ 5,325</u>
NET CHANGE IN FUND BALANCE			<u>\$ 5,325</u>	

STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS - BUDGET AND ACTUAL
(BUDGETARY BASIS) (CONTINUED)
Year Ended June 30, 2012

	<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	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
EXPENDITURES				
Contractual services	-	-	-	-
Other	-	-	-	-
Total expenditures	-	-	-	-
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, 2012

	<u>Business-Type Activities</u>		
	<u>New Mexico</u> <u>Magazine (38200)</u>	<u>Tourism</u> <u>Enterprise (91900)</u>	<u>Total</u>
ASSETS			
Current:			
Investment in State General Fund Investment Pool	\$ 1,378,196	\$ 8,819	\$ 1,387,015
Accounts Receivable, net	133,059	-	133,059
Inventories	75,876	15,792	91,668
Prepaid postage	40,882	-	40,882
Total current assets	1,628,013	24,611	1,652,624
Non-current:			
Capital assets	5,904	-	5,904
Less accumulated depreciation	(5,904)	-	(5,904)
Total non-current assets	-	-	-
TOTAL ASSETS	\$ 1,628,013	\$ 24,611	\$ 1,652,624
LIABILITIES			
Current:			
Accounts payable	\$ 60,207	\$ 229	\$ 60,436
Accrued payroll and related liabilities	36,636	-	36,636
Due to other funds	44,221	-	44,221
Deferred revenue	68,638	-	68,638
Unexpired subscriptions, current	850,113	-	850,113
Compensated absences, current	20,497	-	20,497
Total current liabilities	1,080,312	229	1,080,541
Non-current:			
Unexpired subscriptions, long-term	245,527	-	245,527
Total non-current liabilities	245,527	-	245,527
TOTAL LIABILITIES	1,325,839	229	1,326,068
NET ASSETS			
Invested in capital assets	-	-	-
Unrestricted	302,174	24,382	326,556
Total net assets	302,174	24,382	326,556
TOTAL LIABILITIES AND NET ASSETS	\$ 1,628,013	\$ 24,611	\$ 1,652,624

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 NET ASSETS - PROPRIETARY FUNDS
Year Ended June 30, 2012**

	<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	\$ 2,972,209	\$ -	\$ 2,972,209
By-product sales	-	22,969	22,969
Miscellaneous	33,963	260	34,223
Total operating revenues	3,006,172	23,229	3,029,401
OPERATING EXPENSES			
Personal services	810,570	-	810,570
Contractual services	738,832	-	738,832
Other costs	1,153,353	25,109	1,178,462
Total operating expenses	2,702,755	25,109	2,727,864
OPERATING INCOME (LOSS)	303,417	(1,880)	301,537
OTHER INCOME			
Special Appropriation	1,560,000	-	1,560,000
CHANGE IN NET ASSETS	1,863,417	(1,880)	1,861,537
TOTAL NET ASSETS, BEGINNING	(1,561,243)	26,262	(1,534,981)
TOTAL NET ASSETS, ENDING	\$ 302,174	\$ 24,382	\$ 326,556

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, 2012

	<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	\$ 2,931,267	\$ 23,229	\$ 2,954,496
Payments to suppliers	(1,846,220)	(26,797)	(1,873,017)
Payments to employees	(849,511)	-	(849,511)
	<u>235,536</u>	<u>(3,568)</u>	<u>231,968</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers	1,560,000	-	1,560,000
	<u>1,795,536</u>	<u>(3,568)</u>	<u>1,791,968</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	<u>(417,340)</u>	<u>12,387</u>	<u>(404,953)</u>
CASH AND CASH EQUIVALENTS, BEGINNING			
	<u>\$ 1,378,196</u>	<u>\$ 8,819</u>	<u>\$ 1,387,015</u>
CASH AND CASH EQUIVALENTS, ENDING			
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 303,417	\$ (1,880)	\$ 301,537
Adjustments to reconcile operating income to net cash provided by operating activities:			
Change in assets and liabilities:			
Receivables, net	(78,750)	-	(78,750)
Inventories	(10,095)	775	(9,320)
Prepaid expenses	(38,782)	-	(38,782)
Accounts and other payables	46,889	(2,463)	44,426
Deferred revenue	3,845	-	3,845
Accrued payroll and compensated absences	(38,941)	-	(38,941)
Unexpired subscriptions	3,732	-	3,732
Due to other funds	44,221	-	44,221
	<u>235,536</u>	<u>(3,568)</u>	<u>231,968</u>
NET CASH FROM (USED FOR) OPERATING ACTIVITIES			

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

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2012

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, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2012

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, 2012

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, 2012

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, 2012

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, 2012

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 4 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.

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, 2012

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.

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, 2012

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.

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, 2012, the following funds had a fund balance: the General Fund (18800) had a nonspendable fund balance of \$67,985 relating to prepaid expenses; the Litter Control and Beautification Fund (26200) had a fund balance of \$1,090,281; and the Scenic Byways Fund (0300) had a fund balance of \$17,345, 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.

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.

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave 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 2012 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, 2012

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, 2012, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2011, but prior to December 13, 2012, that provided additional evidence about conditions that existed at June 30, 2012 have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012, 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, 2012.

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3. STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED

In June 2012, an independent expert diagnostic report revealed that the State General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management REporting system (SHARE) system in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx. The document title is, "Current State Diagnostic of Cash Control".

The State General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury.

As of June 30, 2012, the State General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the Department's balances at the business unit/fund level is not possible. However, the Department completes a cash reconciliation, by fund, to verify the cash balances that are stated in the State's central account system, SHARE. This process has been in place prior to the implementation of SHARE and it will continue monthly for the Department.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. DFA is responsible for performing book to bank reconciliations. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items.

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 4. INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL

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

At June 30, 2012 the Department had the following invested in the State General Fund Investment Pool:

State General Fund Investment Pool: \$4,742,735

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

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

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2012.

The fair values of the investments maintained at the New Mexico State Treasurer's Office are as follows at June 30, 2012:

Fund	SHARE Fund No.	Maturities	Fair Value June 30, 2012
General	18800	1 day to 3 years	\$ 2,040,986
Litter Control and Beautification	26200	1 day to 3 years	\$ 1,298,064
Scenic Byways Fund	30000	1 day to 3 years	\$ 16,670
Capital Projects Fund	82300	1 day to 3 years	\$ -
Special Revenue ARRA Fund	89000	1 day to 3 years	\$ -
New Mexico Magazine	38200	1 day to 3 years	\$ 1,378,196
Tourism Enterprise	91900	1 day to 3 years	\$ 8,819

NOTE 5 - ACCOUNTS RECEIVABLE

Business-type Activities

Accounts receivable at June 30, 2012 represents advertising revenue receivable and subscription revenue receivable of the New Mexico Magazine Enterprise Fund, as follows:

**STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 5 - ACCOUNTS RECEIVABLE (CONTINUED)

	<u>Advertising Receivable</u>	<u>Subscription Receivable</u>	<u>Total Receivable</u>
Total accounts receivable	\$ 1,228,741	\$ 40,758	\$ 1,269,499
Less allowances for uncollectible accounts	<u>1,124,125</u>	<u>12,315</u>	<u>1,136,440</u>
Accounts receivable, net	<u>\$ 104,616</u>	<u>\$ 28,443</u>	<u>\$ 133,059</u>

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

NOTE 6 - 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, 2012. There were no amounts due to other state agencies at June 30, 2012.

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. There were no amounts due to other state agencies at June 30, 2012.

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	\$ 92,061	TRD/MVD Distribution for June 2012	39401	\$ 92,061
Scenic Byways	30000	<u>675</u>	STD – Interest on Deposits	80100	<u>675</u>
Total All Funds		<u>\$ 92,736</u>			<u>\$ 92,736</u>

STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 \$91,668 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.

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, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</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	(8,325)	(2,391)	-	(10,716)
Furniture & Fixtures	(13,253)	-	-	(13,253)
Data Processing & Software	(17,840)	(6,977)	-	(24,817)
Vehicles	<u>(79,848)</u>	<u>(13,049)</u>	<u>-</u>	<u>(92,897)</u>
Total accumulated depreciation	<u>(119,266)</u>	<u>(22,417)</u>	<u>-</u>	<u>(141,683)</u>
Governmental activities capital assets, net	<u>\$ 82,938</u>	<u>\$ (22,417)</u>	<u>\$ -</u>	<u>\$ 60,521</u>

**STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Equipment & Machinery	\$ 2,866	\$ -	\$ -	\$ 2,866
Furniture & Fixtures	1,401	-	-	1,401
Data Processing & Software	1,637	-	-	1,637
Other	-	-	-	-
Total capital assets	<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)
Total accumulated depreciation	<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 was \$22,417. The Department did not have any debt related to capital assets as of June 30, 2012. In the Statement of Activities, depreciation expense is captured in Tourism categories for the governmental activities, respectively. Business-type capital assets were fully depreciated prior to fiscal year 2012, which began July 1, 2011.

NOTE 10 - COMPENSATED ABSENCES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2012:

Governmental Activities:

<u>Balance June 30, 2011</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance June 30, 2012</u>	<u>Amounts Due Within One Year</u>
<u>\$ 175,804</u>	<u>\$ 115,558</u>	<u>\$ (153,351)</u>	<u>\$ 138,011</u>	<u>\$ 136,044</u>

**STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 10 - COMPENSATED ABSENCES (CONTINUED)

Business-type Activities:

<u>Balance</u> <u>June 30, 2011</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amounts Due</u> <u>Within One Year</u>
<u>\$ 48,230</u>	<u>\$ 22,139</u>	<u>\$ (49,872)</u>	<u>\$ 20,497</u>	<u>\$ 20,497</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 \$249,316 was recognized for fiscal year 2012. \$129,765 is payable at June 30, 2012 to the State General Fund. Reversions due to the State General Fund are due by September 30, 2012. 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, 2012, 2011 and 2010 were \$356,337, \$469,502 and \$527,680, 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, 2012

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, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal year ending 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, 2012**

**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>
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, 2012, 2011 and 2010 were \$48,625, \$53,847 and \$47,467, 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, 2012 are as follows:

Year ending June 30:

2013	\$ 50,998
2014	34,078
2015	21,218
2016	11,783
2017 and thereafter	<u>-</u>
Total	<u>\$ 118,077</u>

Lease expense under all long-term operating leases for the year ended June 30, 2012 was \$59,720.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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

Transfers to (Purpose)	Fund No.	Amount	Transfers from – Agency No.	Fund No.	Amount
General Fund (General Appropriations)	18800	\$8,268,500	Dept. of Finance and Administration – 34100	85300	\$8,268,500
Special Appropriations	38200	<u>1,560,000</u>	Dept. of Finance and Administration – 34100	85300	<u>1,560,000</u>
Total		<u>\$9,828,500</u>			<u>\$9,828,500</u>

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, 2012, 2011 and 2010, there were no settlements that exceeded insurance coverage.

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 BASIS)
Year Ended June 30, 2012

	Life-to-Date Budgeted Amounts	FY12 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	-	858,654	11,138
Other financing uses	132,000	-	113,435	18,565
TOTAL EXPENDITURES	\$ 1,016,792	-	\$ 983,934	\$ 32,858
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER EXPENDITURES AND OTHER FUNDING SOURCES (USES))		\$ -		

**STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES - ENTERPRISE FUNDS -
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2012**

NEW MEXICO MAGAZINE (38200)				
	Budgeted Amounts		Actual Amounts	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 4,082,800	\$ 4,082,800	\$ 3,006,172	\$ (1,076,628)
Other financing sources	<u>1,560,000</u>	<u>1,560,000</u>	<u>1,560,000</u>	<u>-</u>
Total revenues	5,642,800	5,642,800	4,566,172	(1,076,628)
EXPENDITURES - current				
Personnel services/benefits	1,167,700	1,167,700	810,570	357,130
Contractual services	836,900	836,900	738,832	98,068
Other	<u>2,078,200</u>	<u>2,078,200</u>	<u>1,153,353</u>	<u>924,847</u>
Total expenditures	4,082,800	4,082,800	<u>2,702,755</u>	<u>1,380,045</u>
Fund deficit	<u>1,560,000</u>	<u>1,560,000</u>		
CHANGE IN NET ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,863,417</u>	<u>\$ 1,863,417</u>

**STATE OF NEW MEXICO TOURISM DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES - ENTERPRISE FUNDS -
BUDGET AND ACTUAL (BUDGETARY BASIS) (CONTINUED)
Year Ended June 30, 2012**

TOURISM ENTERPRISE (91900)				
	Budgeted Amounts		Actual Amounts	Variance From
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Charges for services	\$ 90,000	\$ 90,000	\$ 23,229	\$ (66,771)
Total revenues	90,000	90,000	23,229	(66,771)
EXPENDITURES - current				
Other	90,000	90,000	25,109	64,891
Total expenditures	90,000	90,000	25,109	64,891
CHANGE IN NET ASSETS	\$ -	\$ -	\$ (1,880)	\$ (1,880)

STATE OF NEW MEXICO TOURISM DEPARTMENT
 SCHEDULE OF SPECIAL APPROPRIATIONS
 Year Ended June 30, 2012

Fund	Purpose	Special Appropriation	Funds Revert
Capital Projects	ICO	2007, Chap 42, Sec 74, Item 1	6/30/2012
Capital Projects	Otero Sunspot	2007, Chap 42, Sec 74, Item 2	6/30/2012
Capital Projects	Event Trailer	2007, Chap 42, Sec 74, Item 3	6/30/2012
Capital Projects	Angel Fire	2007, Chap 2, Sec 29, Item 1	6/30/2012
Capital Projects	IT for NM Bowl	2007, Chap 42, Sec 68, Item 699	6/30/2012
NM Magazine	Fund Deficit	2012, House Bill 2, Sec 6, Item 14	N/A
Total			

Appropriation Amount	Expenditures to Date	Amount Received to Date	Amount Received in FY2012	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	-	-	-
1,560,000	N/A	1,560,000	<u>1,560,000</u>	<u>-</u>	<u>-</u>
			<u>\$ 1,560,000</u>	<u>\$ -</u>	<u>\$ -</u>

**STATE OF NEW MEXICO TOURISM DEPARTMENT
SCHEDULE OF JOINT POWERS AGREEMENTS
Year Ended June 30, 2012**

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

New Mexico Department of Cultural Affairs

Legal Counsel Services & Administrative Director Duties

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.

Village of Ruidoso

New Mexico Tourism Department/Village of Ruidoso

Use of space at the Billy the Kid Byway 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.

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	\$ 33,560	NMTD
NMTD	3/12/2007	indefinite	\$ -	\$ -	NMTD
NMTD	11/23/2011	indefinite	\$ -	\$ -	NMTD
NMTD	12/18/2008	indefinite	\$ 12,500	\$ 12,500	NMTD
NMTD	12/18/2008	indefinite	\$ 12,500	\$ 12,500	NMTD
NMTD	2/14/2012	2/28/2016	\$ -	\$ -	NMTD
NMTD	12/9/2008	indefinite	\$ -	\$ -	NMTD
NMTD	7/1/2011	6/30/2012	\$ 25,000	\$ -	NMTD
NMTD	7/1/2011	6/30/2012	\$ 25,000	\$ 25,000	NMTD

**Independent Auditors' 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, 2012, and have issued our report thereon dated December 13, 2012. 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

Management of the Department is responsible for establishing and maintaining effective 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as findings 11-02, 12-03 and 12-04, that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe

than a material weakness, yet important enough to merit attention by those charged with governance.

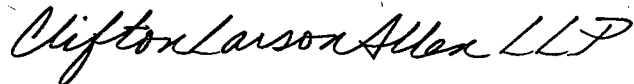
Compliance and Other Matters

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

We also noted 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 12-01 and 12-02.

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.



Albuquerque, New Mexico
December 13, 2012

**STATE OF NEW MEXICO TOURISM DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012**

Section I - Financial Statement Findings

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

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.

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: Management has taken steps to implement a monitoring system for items housed within the Department. Capital asset balances are limited and management will analyze and verify the current value of Department assets.

Finding 12-01 Payroll Deduction Authorization Forms – Control Deficiency

Condition: During our evaluation and testing of internal controls over the payroll process, we discovered that one individual's personnel file was missing a deduction authorization form, and another individual's form did not specify a deduction that was being withheld on his paycheck.

Criteria: As set forth in the New Mexico Manual of Model Accounting Practices (H.R.1.1, Section F), state agency payroll staff are tasked with receiving general deduction information from employees, validating the received document, and then entering the deductions into SHARE so that payroll transactions appropriately reflect the desired withholdings.

Cause: The Department does not have an effective review process in place through which employee deductions are compared to personnel file documentation.

Effect: Employees' net pay may not accurately reflect their desired withholdings and benefits.

STATE OF NEW MEXICO TOURISM DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012

Section I - Financial Statement Findings (continued)

Finding 12-01 Payroll Deduction Authorization Forms – Control Deficiency (continued)

Recommendation: We recommend that a periodic audit be performed by payroll staff at the Department, whereby a random selection of employees is made periodically. For each employee selected, Department staff should compare the deductions on file in personnel records to the actual deductions being taken through SHARE payroll.

Management's Response: Management is working closely with the State Personnel Office, as they are now providing Human Resources Shared Services. Management will suggest periodic audits or reconciliations of payroll deductions and necessary documents for each type.

Finding 12-02 Approval for Employee Leave – Control Deficiency

Condition: As we tested the internal controls over the payroll process, in one out of twenty-two transactions tested, it was discovered that an employee was paid for two hours of administrative leave for which approval was unable to be located.

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

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

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

Recommendation: We recommend that the individual who is responsible for approving an employee's time in the SHARE accounting system verify that proper authorization for leave is documented.

Management's Response: Management has informed Program Managers and Supervisors of the importance and benefits of more diligent oversight and approval of employee leave. Program Managers are provided the Payable Status Report per payroll and are expected to confirm any leave entered into SHARE-HCM is supported with a Leave Request Form.

Finding 12-03 Segregation of Duties in the Cash Receipts Process – Significant Deficiency

Condition: In one instance out of twenty-two transactions tested in the cash receipts process, a deposit was not reviewed by an individual other than the employee processing the deposit in the accounting system.

STATE OF NEW MEXICO TOURISM DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012

Section I - Financial Statement Findings (continued)

Finding 12-03 Segregation of Duties in the Cash Receipts Process – Significant Deficiency (continued)

Criteria: Per the New Mexico Manual of Model Accounting Practices (2010, FIN 2.3), in regards to deposits “the amount deposited must be verified by an individual independent of the personnel who had access to the monies and/or deposit.”

Cause: Lack of proper segregation of duties over the cash receipts process.

Effect: The likelihood that an error can occur is heightened when only one individual both initiates and records a transaction.

Recommendation: We recommend that the Department take steps to ensure that all deposits are verified by another individual within the Administrative Services Division prior to recording in the accounting records.

Management’s Response: Management has implemented new daily business practices to include a cash receipts (deposit) log that ensures a minimum of three staff members are involved in the verification process.

Finding 12-04 Account Reconciliations – Significant Deficiency

Condition: During our audit we noted two asset accounts, inventory and prepaid expenses, for which the Department did not provide timely detail of the balances. The process through which New Mexico Magazine inventory is not considered to be effective at identifying slow-moving and/or obsolete inventory. An audit adjustment in the amount of \$7,541 was required to accurately state inventory balances at June 30, 2012. In regards to prepaid expense balances, an audit adjustment in the amount of \$30,970 was required to accurately reflect the amounts in the accounting records, as the Department to that point had not reconciled the account.

Criteria: Per the New Mexico Manual of Model Accounting Practices (2010, FIN 10.2), “inventory management should provide for a timely and accurate accounting and reporting of materials and supplies on hand.”

Cause: The Department is not reconciling asset balances in a timely manner.

Effect: Inventory balances were overstated by \$7,541 prior to the correcting audit adjustment. Prepaid expense balances were understated by \$30,970, also prior to correction.

Recommendation: We recommend that the Department develop a process through which the accounting records for all asset and liability accounts are reconciled to actual balances on a monthly basis. This will provide management of the Department with the information necessary to make informed decisions that can result in both improved operational efficiency and the reduction of unnecessary expenditures.

Management’s Response: Management will reconcile Inventory and Pre-Paid accounts monthly and prepare necessary journal entries to be posted in SHARE-FIN.

**STATE OF NEW MEXICO TOURISM DEPARTMENT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012**

Section I - Summary Schedule of Prior Year Audit Findings

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

Finding 08-04 Over-expended Budgets (Significant Deficiency) – Resolved

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

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

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

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

**STATE OF NEW MEXICO TOURISM DEPARTMENT
EXIT CONFERENCE
June 30, 2012**

An exit conference was held with the Department on December 13, 2012 at the Department's offices in Santa Fe, New Mexico. In attendance were:

STATE OF NEW MEXICO TOURISM DEPARTMENT

Monique Jacobson, Cabinet Secretary
Richard Pickering, Director, Administrative Services Division
Isabel Duran, Deputy Director, Administrative Services Division
Ricky Bejarano, CPA, DFA Deputy Cabinet Secretary/State Controller

CLIFTONLARSONALLEN LLP

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