

**STATE OF NEW MEXICO
ECONOMIC DEVELOPMENT DEPARTMENT
Santa Fe, New Mexico**

**FINANCIAL STATEMENTS
June 30, 2012
(with Independent Auditor's Report Thereon)**

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

Office of the Secretary

Jon Barela, Cabinet Secretary

Barbara Brazil, Deputy Cabinet Secretary

Angela Heisel, Communications Director

Administrative Services

Barbara Brazil, Acting ASD Director

Georgette Chavez, Accounting Bureau Chief



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Independent Auditors' Report

Mr. Jon Barela, Secretary
State of New Mexico Economic Development Department and
Mr. Hector H. Balderas, New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, each major fund and the budgetary comparisons for the general fund and major special revenue funds of the State of New Mexico Economic Development Department (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 projects funds 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. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the government activities, each major fund, the budgetary comparisons for the general fund, major special revenue funds and capital project fund of the Department as of June 30, 2012, and the changes in financial position of those activities and funds. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2012, or the respective changes in the financial position thereof, in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Department as of June 30, 2012, and the respective changes in financial position for the year then ended, 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 present fairly, in all material respects, the respective financial position of the respective budgetary comparisons for the major capital project funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 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 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 on pages 4 through 17 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. The additional schedules listed as "supplemental information" in the table of contents (Schedules 1 through 4) are presented for purposes of additional analysis and are not a required part of the 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 basic 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 17, 2012

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

The State of New Mexico Economic Development Department's (the Department) discussion and analysis 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 and identify any financial issues or concerns. The Management's Discussion and Analysis (MD&A) is designed to focus on the past year's activities and financial changes.

As management of the Department, we offer readers this narrative overview and analysis of the financial activities of the Department for the year ended June 30, 2012.

Department Overview

The Department is one of 28 cabinet level departments within the executive branch of the New Mexico State Government. Founded by State statute in 1978, the Department's mission is to facilitate the creation, retention and expansion of jobs and to increase investment through public/private partnerships to establish a stable diverse economy in an effort to improve the quality of life for New Mexicans.

To achieve our mission, the Department provides leadership and technical assistance to communities, businesses and economic development organizations - this is done to empower both the public and private sectors to facilitate economic growth. Our emphasis is on the creation of diverse jobs that have a significant economic impact on the communities in which they occur.

Financial Highlights

- In the fiscal year ended June 30, 2012, the total assets of the Department exceeded total liabilities by \$13,365,224.
- The Department acquired \$81,010 in total capital assets with individual acquisition values greater than \$5,000.
- Of the \$17,865,308 in total current assets, nearly 75% was in the form of cash and investments in the state general fund investment pool.
- The total cost of Department programs was \$13,611,952, whereas the total Department revenue was \$19,597,066. Reversions to State General Fund amounted to \$706,688.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements comprise four components: 1) government-wide financial statements; 2) fund financial statements; 3) budget and actual comparisons; and 4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Department's financial statements, in a manner similar to a private-sector business.

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

The statement of net assets presents information on all of the Department's assets and liabilities, with the difference between the two reported as total net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Department that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Department include economic development, program support, technology commercialization and community development. Within the Department, there are no business-type activities.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Department has three types of governmental funds - general fund, special revenue and capital outlay.

Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The Department maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, the Capital Projects fund, and two Special Revenue funds. All funds are presented as major.

Governmental Funds - The Department adopts an annual appropriated budget for its general and special revenue funds. The basic governmental fund financial statements can be found on pages 21 and 24 of this report.

Other Information. Supplemental information begins on page 55.

Government-Wide Financial Analysis

As mentioned earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Department, assets exceeded liabilities by \$13,365,224 at the close of the 2012 fiscal year.

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

The largest portion of Department net assets (approximately 87%) are associated with the Community Development Loan Fund and the Industrial Development Training Program. The Department uses this cash to assist businesses in providing on-the-job training and job opportunities to New Mexicans, while offering funding assistance to New Mexico businesses.

At the end of the 2012 fiscal year, the Department was able to report positive balances in the category of net assets. The same situation held true for the prior fiscal year.

Governmental Activities

Governmental activities increased the Department's net assets by \$5,286,444.

Financial Analysis of the Government's Funds

The focus of the Department's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Department's financial requirements.

As of the end of the 2012 fiscal year, the Department's governmental funds reported combined ending fund balances of \$9,009,310, an increase of \$2,764,990 in comparison with the prior year. The majority of this amount is derived from the Job Training Incentive Program ((JTIP) (63800) and constitutes reserved for community development fund balance, which will not revert to the general fund and is available for spending in the following fiscal year.

The general fund is the chief operating fund of the Department. At the end of the 2012 fiscal year, unassigned fund balance of the general fund was \$(2,521). This amount is not associated with non-committed funding from the JTIP and the Community Development Loan Fund.

During the 2012 fiscal year, the fund balance of the Department's general fund decreased by \$54,162.

The Department's assets at the fund level are mostly comprised of investment in the State General Fund Investment Pool, which is \$13,355,329 or 62%. The fund liabilities are made up mostly of accounts payable, \$1,763,015, or 14%, and deferred revenue, \$4,390,116, or 35%. As mentioned earlier, the Department's largest source of income comes from State General Fund Appropriations. The Department spent 22%, or \$3,050,984, on contractual services. The largest expenditure category is "other" expenditures, which include funding the JTIP and other programs. The Department spent \$7,400,823, or 54%, in this category.

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

Financial Analysis of the Department as a Whole

Net Assets. The Department's condensed net assets changed from fiscal year 2011, increasing from \$8 million to \$13.3 million, which represented a 65% change.

**Detail of the Department's Condensed Net Assets
as of June 30, 2012 and 2011**

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Amount Change</u>	<u>Total % Change</u>
Governmental Activities				
Assets:				
Current assets	\$ 17,865,308	\$ 11,491,610	\$ 6,373,698	55%
Capital and non-current assets	<u>117,844</u>	<u>57,662</u>	<u>60,182</u>	104%
Total assets	<u>\$ 17,983,152</u>	<u>\$ 11,549,272</u>	<u>\$ 6,433,880</u>	56%
Liabilities:				
Current liabilities	<u>\$ 4,617,928</u>	<u>\$ 3,470,492</u>	<u>\$ 1,147,436</u>	33%
Total liabilities	<u>4,617,928</u>	<u>3,470,492</u>	<u>1,147,436</u>	33%
Net assets:				
Invested in capital assets	117,844	57,662	60,182	104%
Restricted	13,437,981	8,188,999	5,248,982	64%
Unrestricted	<u>(190,601)</u>	<u>(167,881)</u>	<u>(22,720)</u>	14%
Total net assets	<u>13,365,224</u>	<u>8,078,780</u>	<u>5,286,444</u>	65%
Total liabilities and net assets	<u>\$ 17,983,152</u>	<u>\$ 11,549,272</u>	<u>\$ 6,433,880</u>	

**STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Statement of Activities

The Department's change in assets for fiscal year 2012 was an increase of \$5,286,444 (Statement of Activities). 66% of the Department's revenue comes from State General Fund Appropriations. Total revenues and transfers for fiscal year 2012 were \$18,890,378, of which 65% is State General Fund Appropriations.

Statement of Activities

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Amount Change</u>	<u>Total % Change</u>
Governmental Activities				
Revenues:				
Program revenue	\$ 8,018	\$ 222,155	\$ (214,137)	100%
Operating grants	-	-	-	0%
Total program revenues	8,018	222,155	(214,137)	100%
General revenues:				
State General Fund appropriations	12,455,000	7,728,300	4,726,700	61%
Other	-	-	-	0%
Total general revenues	<u>12,455,000</u>	<u>7,728,300</u>	<u>4,726,700</u>	61%
Total revenues	12,463,018	7,950,455	4,512,563	57%
Expenses:				
Economic development	13,612,217	16,383,784	(2,771,567)	-17%
Other sources (uses):				
Severance tax bonds proceeds	5,842,019	2,300,685	3,541,334	154%
Operating financing sources (uses)	<u>593,359</u>	<u>(520,095)</u>	<u>1,113,454</u>	-214%
Total expenses	<u>7,176,839</u>	<u>14,603,194</u>	<u>(7,426,355)</u>	-51%
Change in net assets	5,286,179	(6,652,739)	11,938,918	-179%
Net assets, beginning	<u>8,078,780</u>	<u>14,731,519</u>	<u>(6,652,739)</u>	-45%
Net assets, ending	<u>\$ 13,364,959</u>	<u>\$ 8,078,780</u>	<u>\$ 5,286,179</u>	65%

**STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
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Financial Analysis of the Department's Funds

Capital Assets and Debt Administration. The Department's investment in capital assets for its governmental activities amounts to \$117,844 (net of accumulated depreciation). This investment in capital assets includes machinery and equipment. The Department expended \$81,010 in capital assets whose individual acquisition values are greater than \$5,000 for the year. Additional information on the Department's capital assets can be found in the notes to this report.

The Department's total liabilities increased \$1,147,436 over the previous fiscal year. The key factor in this decrease was an increase in accounts payable and due to the State General Fund. The Department does not have any long-term debt or deferred revenue due to the State General Fund.

Original and Final Budget. The Department's major sources of revenue are General Fund Appropriations. Due to the budget cuts of FY12, the Department was forced to reduce its spending to be in alignment with the General Fund revenue.

Department Overview

The Department expects to hold expenditures and costs flat while still facilitating the creation, retention and expansion of jobs and to increase investment through public/private partnerships to establish a stable diverse economy in an effort to improve the quality of life for New Mexicans. The national and state financial situation for the upcoming FY13 is anticipated to be less bleak than that experienced during FY12. For the Department, this means that operating budgets will be flat.

Department Cost Reduction

In FY11, Secretary Barela made significant cost-saving cuts in the Economic Development Department by reducing the Department's vehicle fleet from 19 to 13 vehicles, which included the vehicle that was assigned to the Secretary.

The Department reduced the number Blackberry phones used by staff by six. And the Department renegotiated the printing contract to save \$30,000 a year.

Salaries of Gov Ex positions were reduced by at least 10 percent from the previous year and the number of Gov Ex positions was also reduced from 11 to 8 positions.

Due to cuts in HB2, four positions were eliminated through attrition and the Department did not fill three additional positions. Despite the cuts, the Department was able to re-organize to become more efficient and effective. Staffing of FTEs went down from 70 in FY10 to 65 in FY11 and then to 56 in FY12.

However, even with the issues discussed above, the Department has had many successes to celebrate in fiscal year 2012. The Department has two approaches to creating jobs and wealth in New Mexico: growing communities and growing and relocating businesses.

**STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
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Economic Development Division

The mission of the Economic Development Division is to assist local communities and businesses in retaining and creating better jobs, thriving communities and an exemplary quality of life for all New Mexicans. The Economic Development Division contains the MainStreet and Arts and Culture Programs, the Job Training Incentive Program (JTIP), the Community Development Team, Certified Communities Initiative (CCI), the Tribal Liaison and the Business Development Teams.

In FY12, 2,684 new jobs were created (1,542 rural and 1,142 urban) as a result of Economic Development Department efforts. Of this total, 605 jobs were created via 35 business expansions, 25 business expansions in urban communities and 10 in rural communities. The Job Training Incentive Program provided training for 1,015 persons in new jobs and reported a one-year retention rate of 72%.

The New Mexico Partnership, a not-for-profit entity that contracts with the Economic Development Department to market and recruit economic base jobs to New Mexico, facilitated the creation of 572 jobs through 5 business relocations, short of their target of 12.

Descriptions of the teams are as follows:

- The community development team, commonly known as "regional representatives," assists communities to build their capacity for development and to advance the region's goals for economic growth. One regional representative is tasked with focusing on Native American Communities and serves on the Tribal Economic Development Advisory Council (TEDAC), whose purpose is to identify and/or develop new programs specific to Native American issues.
- The mission of the Job Training Incentive Program (JTIP) is to assist in the development of New Mexico's economy by providing funds to support training for new employment opportunities, as well as to provide skill enhancement to residents of New Mexico.
- The Financial Development Team facilitates the growth of new and existing businesses by acting as a catalyst through the utilization of financing tools available within New Mexico.

Certified Communities Initiative Program (CCI)

Now in its tenth year, the Certified Communities Initiative Program (CCI) continues to assist New Mexico communities build the local economic development capacity necessary to facilitate economic growth.

- Certification requires communities to pass the Local Economic Development Act, which empowers them to embark on economic development projects tailored to their needs. Other benefits of certification include state promotion of certified communities, technical assistance in undertaking economic development efforts, and financial resources to help communities develop marketing materials, fund professional development training for staff, conduct labor market and feasibility studies, and other related projects.
- To date, the program has grown to include 36 certified communities, with the majority of the original communities maintaining their certification.

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MainStreet and Arts and Cultural District Programs

There are currently 23 MainStreet community affiliates. Depending on Staff and budget, 2 new "Emerging communities" will be added in CY2013

Three Emerging communities graduated to "Start-Up MainStreet communities": Deming, Nob Hill and T or C. They will be funded to complete their downtown infrastructure priority plans through a Master Plan process in FY12.

The Department and New Mexico MainStreet went through a four day Biennial Assessment by the National Trust Main Street Center. The result was relicensing and reaccreditation of the state program for another two years.

New Mexico MainStreet communities' major projects completed:

- MainStreet Façade Squads in Las Vegas, Roswell and Tucumcari
- Curb Appeals in Grants and Taos
- Survey work to nominate Clovis and Lovington to the state registry of historic and cultural properties
- Capital Outlay projects:
 - Artesia - Phase IV Streetscape, Veterans Park
 - Carlsbad - Downtown Master Plan and Pedestrian improvements
 - Clayton - Walnut Street Streetscape
 - Clovis - Streetscape and Pedestrian Improvements, Railroad Steam Locomotive Park
 - Las Cruces – La Placita Pedestrian connector to Alameda Residential District
- Las Vegas – Downtown Master Plan and Metropolitan Redevelopment Plan
- Portales – Downtown Master Plan and Bicycle path improvements to college
- Raton – Restoration of Shuler Theatre
- Silver City – Downtown Master Plan and Metropolitan Redevelopment Plan
 - o Silver City won the National "Great American Main Street Award"
 - o Las Vegas won the "Community Preservation Award" for its historic building façade squads
 - o Deming's MainStreet board member Bryan Reedy won the Architectural Heritage Preservation Award for renovation to open a brew pub
 - o Las Vegas' Wid Slick won a lifetime achievement award for rehabilitation and expansion of the Plaza Hotel

There are two "Special Projects": a Native American MainStreet Program in Zuni Pueblo, and the development of a commercial kitchen and related added value agricultural development programs in the village of Dona Ana.

There are currently Six State Authorized Arts and Cultural Districts (ACD).

Depending on Staff and budget, 2 new "Start Up" ACD communities will be added in CY2013.

Las Vegas and Silver City ACDs (the pilot programs) graduated the program. Both have municipally adopted their Cultural and Master Plans with an MRA component to develop a sustainable source of funding for redevelopment projects.

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Start Up ACDs Los Alamos, Raton, and Taos are completing their required ACD District Cultural Plans for municipal adoption. They will be funded to complete their ACD Master Plan to prioritize their infrastructure and capital improvement projects.

The final stages of branding will be the installation of ACD logo destination arrival signs in the "gateways" of all 6 state authorized districts. Funding from the McCune Foundation will pay for the project.

International Trade Office

Program Description

The Office of International Trade (OIT) promotes and facilitates export sales of New Mexico goods and services worldwide in order to assist the process of job creation, retention and expansion throughout the state. OIT also recruits and develops foreign direct investment from around the globe and helps foreign companies invest in capital projects in New Mexico.

The Office of International Trade develops international business transactions. Transactions include direct sales, signed distributor/agent agreements, and other international contracts or memorandums of understanding. Many of the services are provided by substantive communication between OIT staff and a New Mexico client. This communication can be in the form of a one-on-one meetings, telephone calls or emails.

OIT – Major Issues or Accomplishments for FY 2012 (July 1, 2011 through June 30, 2012)

Trade Missions

- The OIT Office led the New Mexico Middle East Trade Office visit to Albuquerque, Santa Fe, and Farmington in July 2010 to meet and consult with 20 New Mexico companies, local economic development officials in Albuquerque, Clovis, Portales, Hobbs and Roswell. OIT conducted Export to the Middle East workshops in each location to offer advice on breaking into or expanding their markets in the Middle East.
- Taiwan Foreign Direct Investment Workshop in Taipei, Taiwan in July 2011. Promoted investment opportunities in New Mexico to 50 Taiwanese companies seeking to invest in the USA. Highlighted investment opportunities in the energy, aerospace and the border region in New Mexico. Followed up to requests for additional information and working with Taiwanese company which is looking to establish a renewable energy company in New Mexico and seeking incentives.
- Taiwan Trade Office business outreach mission to mainland China in July 2011 to meet with key Chinese companies and initiate contacts for the China First Initiative planned for the SBA STEP Grant award. The goals of the program are to assist NM companies in overcoming the special challenges posed by entry into the fast growth China market and expand their exports.
- Exports to Taiwan increased by \$150,000 from Private Label Select, a Taos cosmetics and skin care company. Private Label Select signed a contract with Baby Bee, a Taiwanese distributor of baby care products. Private Label Select will produce lip balm in Taos under the Baby Bee label which will be marketed throughout Taiwan, and eventually mainland China.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2012

- Exports to the United Arab Emirates of jewelry polishing cloths were facilitated by the New Mexico Middle East Trade Office. A Roswell based company supplied an initial order of \$25,000 with follow up orders in the amount of \$500,000 with distribution in Hong Kong, India, and the Middle East.
- Coordinated the Governor's Renewable Energy Investment mission to Madrid, Spain in September 2010 and conducted meetings with 100 key Spanish alternative energy companies and leading alternative energy-related trade organizations in Spain.
- Hosted a Reverse Trade Mission from the United Kingdom in November 2010 with seven UK companies represented. Arranged meetings with Sandia and Los Alamos National Laboratories, Urenco in Hobbs, WIPP in Carlsbad, Hyperion Power Generation, the University of New Mexico and NM Tech to promote collaborative research and development and discuss foreign direct investment in New Mexico by UK companies.
- Hosted a Reverse Investment Mission from Spain with 13 Spanish companies represented with an interest in investing in alternative energy projects in New Mexico in the areas of solar, wind and biomass. One company, Gamesa went on to establish a wind turbine testing site in Tucumcari, NM with interest in expanding their investment portfolio in New Mexico.
- Assisted Cosmoderm, a New Mexico company to submit paperwork to clear an export shipment of contact gel used in medical screening to a distributor in Kuwait in the amount of \$30,000.
- NM Middle East Trade Office found a distributor in Kuwait for Del Sol Aviation and NM ACES to promote flight training in fixed wing, rotary wing and aviation curricula in Kuwait. The Kuwaiti company will seek Middle Eastern flight students to enroll in the program in Albuquerque, NM. A contract is in the negotiation stage including the potential for Del Sol to broker the sale of two jets to Middle East clients.

Individual Export Consultations

- Conducted 125 individual export consultations for New Mexico companies seeking to branch out overseas and/or find representation for their product line internationally. Provided assistance on Export Letters of Credit, Documentation, Legal Aspects of doing business internationally and Intellectual Property protection for technology based companies.
- Provided 52 trade leads to New Mexico export companies in the Middle East and Taiwan which led to NM companies appointing four new distributors in both regions and exporting for the first time to new markets.

International Export Seminars/Workshops

- Conducted two International Export Trade Seminars and Workshops in partnership with the US Department of Commerce in Albuquerque to highlight trade opportunities and to assist NM companies to learn about the export process.
- Coordinated the International Trade Council Task Force Meetings in Albuquerque, Santa Fe and Las Cruces with the task force members appointed by the Governor to discuss strategies to increase the awareness of the NM business and academic community for the need to focus on the Global Market. Summarized the results with feedback from the

**STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2012

business, local economic development and business community in a final report which was disseminated to the participants and to the new, incoming administration.

The International Trade Office works with the NM Border Authority to improve infrastructure at our ports of entry and along Mexican border as well as to improve business and political relationships between New Mexico and Mexico. This work includes administering New Mexico's role in the on-going initiatives of the Border Governors Conference and the state's commissions with Chihuahua and Sonora. Through the dialogue created, bi-national issues and opportunities are surfaced and addressed. In addition to important policy changes made on both sides of the border, these strong relationships generate collaborative efforts for New Mexico's educational and R&D institutions as well as essential information sharing across the border protecting New Mexicans from serious health and public safety risks.

Office of Business Advocacy

Background:

The Office of Business Advocacy was created in January 2011 as a direct initiative from New Mexico Governor Susana Martinez and Jon Barela, Cabinet Secretary of the New Mexico Economic Development Department (NMEDD).

Mission:

As a division of NMEDD, the Office of Business Advocacy:

- Advances New Mexico business and enterprise with tools to expand, grow, and retain employers
- Enables business owners to break through regulatory roadblocks and red tape
- Helps to navigate state government by providing assistance with permitting, licenses, inspections, and taxation issues
- Resolves challenging bureaucratic, intergovernmental, and public policy problems adversely affecting business in New Mexico

Under the direction of Dora Dominguez, the Office of Business Advocacy has already formed many of the key strategic partnerships needed to advance New Mexico business by resolving challenging regulatory and public policy issues that challenge business growth.

The initiative boasts key strategic partnerships with the Small Business Development Center Network and its 19 offices. The initiative also works with Finance New Mexico, the Small Business Investment Corporation, the Federal Small Business Administration, the Economic Development Department's Regional Representatives, statewide Economic Development Offices, and many more business resource entities across the state.

The Office of Business Advocacy has a web site www.NMforBusiness.com, an online intake form, a hard copy brochure along with an electronic fact sheet, presentation PowerPoint slides, press releases, newsletter e-mail blasts, and marketing articles for outreach and public relations.

Office of Business Advocacy was responsible for 420 jobs created and 101 jobs saved.

STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

New Mexico Film Office

The New Mexico State Film Office (NMFO) is a division of the New Mexico Economic Development Department that serves the film and television industry locally, nationally and internationally. Our purpose is to market the state to this industry, service the productions and promote jobs for New Mexicans. We offer many resources to producers, film crew and local filmmakers. We work diligently to assist and coordinate the scouting of potential filming locations. The NMFO consults with productions regarding the financial aspects of their projects, guiding them through the incentives such as the 25% Refundable Film Production Tax Credit, the Film Investment Loan Program and the Job Training Incentive Program for Film & Multimedia. The NMFO also connects productions with the crew, vendor services and film liaisons throughout the state. In addition to promoting and providing production services, the film office is initiating emerging media opportunities for the state and working to expand infrastructure for the industry. The support of New Mexican filmmakers and crew is a priority for the NMFO as is expanding the Statewide Film Liaison Network and leading the state in the NM Film Tourism Initiative.

The NM Film Office's primary services and the beneficiaries of those services are as follows:

Production Services

1. **The 25% refundable film production tax credit** applies to direct production expenditures (including New Mexico resident crew) that are subject to taxation by the State of New Mexico. Expenditures for post-production services rendered in New Mexico that are subject to taxation in the State of the New Mexico will also qualify. Eligible productions include feature films, independent films, television, regional and national - commercials, documentaries, animation, video games, webisodes, and post-production. The production company must file a state tax return to receive the credit. This tax credit is non-transferable. The film office facilitates this incentives program which benefits the local economy including local hotels, restaurants, lumber yards, rental car and equipment companies, retail stores, and other small businesses. Local businesses receive an increase in normal revenue. In addition, this incentive benefits New Mexican residents who gain employment through these film productions, which result in opportunities to advance their careers, create small businesses and further build the overall film industry of New Mexico. In FY 2012, fourteen major features and television projects shot in New Mexico creating \$225M in direct spend.
2. **Locations resources** are vital to marketing the state. Locations services include script breakdown, location photography, location contacts and scouting (showing "properties.") The online searchable location database has over 50,000 photographs of 8,000 NM locations and requires maintenance.

Emerging Media

3. **Emerging Media** refers to new and developing applications of digital media. These industries include the areas of education, healthcare, scientific research and entertainment. The New Mexico Film Office has initiated researching and developing avenues of growth in this realm in order to continue to be on the forefront of technology and therefore create job opportunities within New Mexico. The film office's objective is to increase the state's visibility in digital technologies by recruiting businesses that affect

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

these industries by meeting with digital technicians, companies and related vendors to develop and market available incentives

Job Training

4. **The Job Training Incentive Program (JTIP)** for Film and Multi-Media provides workforce development to New Mexican technicians employed by productions. Through two major initiatives, the Film Crew Advancement Program (FCAP) and the PreEmployment Training Program (PETP), the NM Film Office provides both on-the-job training for resident crew on productions and advanced educational workshops to increase hirability and career opportunities in the industry. In FY 2012, eleven companies participated in the Film Crew Advancement Program and four workshops were conducted through the Pre-employment Training Program.

Local Outreach

5. **The NM Filmmakers Program** offers support and resources for our local, aspiring and professional filmmakers (e.g. writers, directors and producers) to advance in their careers through a series of workshops, seminars, competitions, cultural outreach initiatives, showcases and networking events.
6. **The State Film Liaison Network** sanctions over 25 liaisons in cities and towns across the state in an effort to foster effective communication between the NM Film Office and all rural and urban areas regarding film production and secondary/post-secondary film education programs. This network provides benefits not only to the NM Film Office, the NM Higher Education Department and the NM Public Education Department in state government, but also to the many state residents who are now part of a well-informed consortium that can now learn about film and media related events around the state. The liaisons, appointed by their own communities then sanctioned by the NM Film Office, assist state government in attracting the film industry to rural areas of New Mexico. In FY 12, liaisons participated in town hall meetings in four different NM cities.
7. **The Film Tourism Initiative** analyzes and promotes film-related tourism in communities across New Mexico, thereby demonstrating additional revenue to local businesses as a result of film and television production in those areas. This ongoing project is a result of collaborations with the NM Tourism Department and the NM Department of Cultural Affairs.

Economic Impact for New Mexico: Since 2003, over 175 major film and television projects have shot in New Mexico and over \$1.6 billion have been directly spent into the economy.

FY12	Q1	Q2	Q3	Q4	Total
Direct Spend into NM Economy (qualifying expenditures)*	\$51.1	\$29.8	\$74.8	\$68.9	\$224.6
Economic Impact (multiplier of 3)*	\$153.3	\$89.4	\$224.4	\$206.7	\$673.8
Total number of Projects in Principal Photography**	15	14	17	11	57
Number of Projects over \$1m (total budget) in Production	3	4	4	3	14
Worker Days (crew size x days employed)	41,939	34,437	39,140	27,530	143,046

* All dollar amounts in millions

** includes post only projects (10 total)

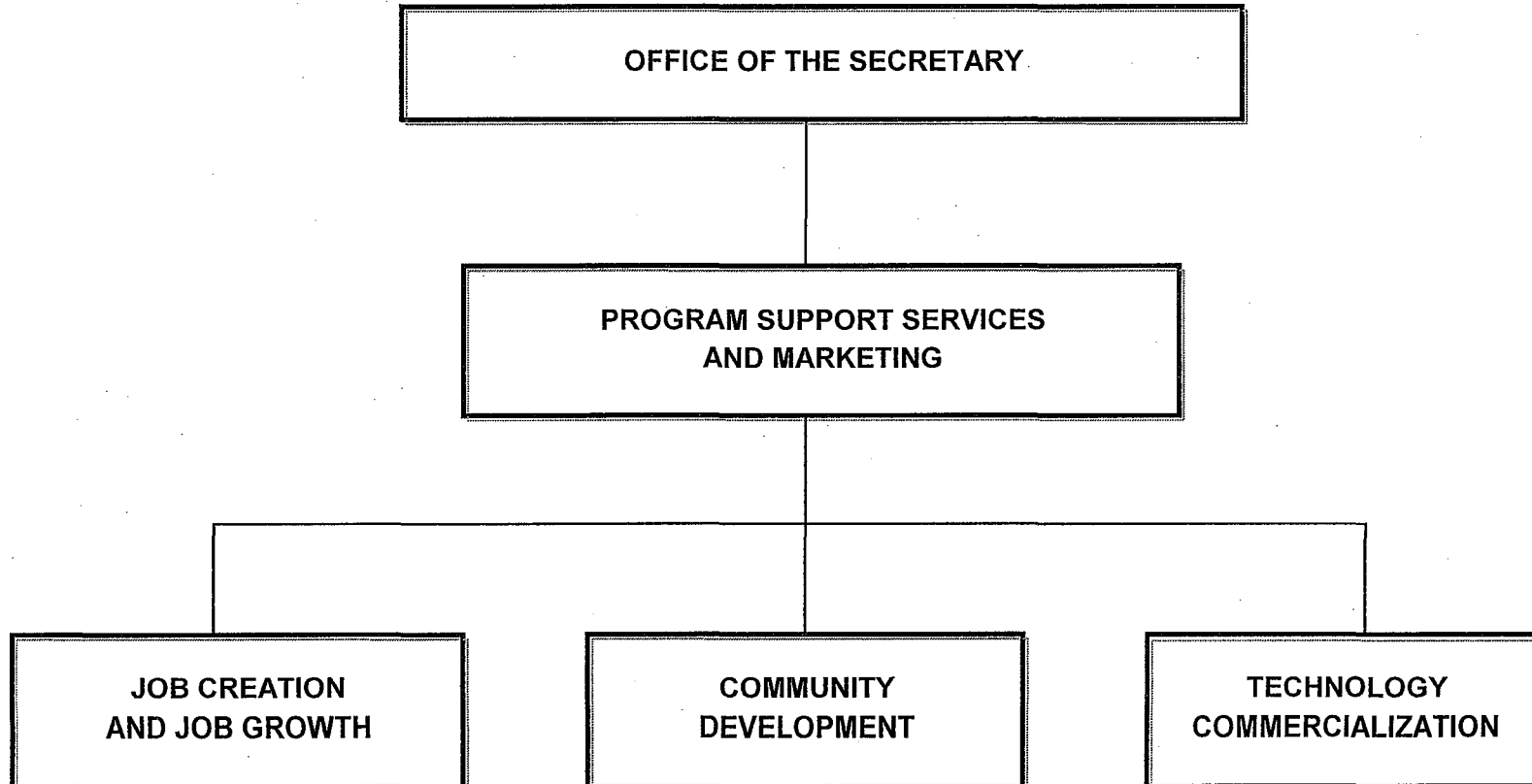
**STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2012

Requests for Information

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Administrative Services, New Mexico Economic Development Department, Joseph M. Montoya Building, 1100 Saint Francis Drive, Santa Fe, New Mexico 87505-4147.

STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
ORGANIZATIONAL CHART
June 30, 2012



STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities
ASSETS	
Investment in State General Fund Investment Pool	\$ 13,355,329
Due from other State Agencies	4,481,347
Notes receivable	28,011
Accrued interest	621
Capital assets, net	117,844
TOTAL ASSETS	\$ 17,983,152
LIABILITIES	
Accounts payable	\$ 1,763,015
Accrued payroll	114,453
Other Liabilities	17,250
Due to State General Fund	2,549,754
Due to other State Agencies	21,410
Compensated absences payable:	
Expected to be paid within one year	152,046
Total liabilities	4,617,928
NET ASSETS	
Invested in capital assets	117,844
Restricted	13,437,981
Unrestricted	(190,601)
Total net assets	13,365,224
TOTAL LIABILITIES AND NET ASSETS	\$ 17,983,152

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

STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenue			Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
GOVERNMENTAL ACTIVITIES					
Economic Development	\$ 2,587,516	\$ 8,018	\$ -	\$ -	\$ (2,579,498)
Film	737,994	-	-	-	(737,994)
Mexican Affairs	73,500	-	-	-	(73,500)
Program Support	2,359,607	-	-	-	(2,359,607)
Technology Commercialization	19,989	-	-	-	(19,989)
Other Initiatives	7,833,611	-	-	-	(7,833,611)
TOTAL ACTIVITIES	\$ 13,612,217	\$ 8,018	\$ -	\$ -	(13,604,199)
GENERAL REVENUES (EXPENSES)					
Other revenue:					
					12,455,000
					5,842,019
					1,300,047
					<u>(706,688)</u>
					18,890,378
					<u>18,890,378</u>
					5,286,179
					<u>8,078,780</u>
					<u>\$ 13,364,959</u>

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

**STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012**

	General Fund	JTIP Fund	Capital Projects Fund
ASSETS			
Investment in State General Fund			
Investment Pool	\$ 3,046,488	\$ 9,703,211	\$ -
Due from other State Agencies	-	-	1,475,010
Due from other funds	-	2,218,000	-
Notes receivable	-	-	-
Accrued interest receivable	-	-	-
TOTAL ASSETS	<u>\$ 3,046,488</u>	<u>11,921,211</u>	<u>\$ 1,475,010</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 385,445	\$ 265,908	\$ 323,325
Accrued payroll	114,453	-	-
Other liabilities	-	17,250	-
Deferred revenue	-	-	1,383,779
Due to other funds	-	-	1,348,675
Due to other Agencies	21,410	-	-
Due to State General Fund	2,527,701	-	22,053
Total liabilities	<u>3,049,009</u>	<u>283,158</u>	<u>3,077,832</u>
FUND BALANCES			
Restricted	-	11,638,053	-
Assigned	-	-	-
Unassigned	(2,521)	-	(1,602,822)
Total fund balances	<u>(2,521)</u>	<u>11,638,053</u>	<u>(1,602,822)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,046,488</u>	<u>\$ 11,921,211</u>	<u>\$ 1,475,010</u>

Major Funds			
STB Capital Projects Fund	Revolving Loan Community Development Fund	ISO 9000 Fund	Total
\$ -	\$ 603,760	\$ 1,870	\$ 13,355,329
3,006,337	-	-	4,481,347
-	1,348,675	-	3,566,675
-	28,011	-	28,011
-	621	-	621
<u>\$ 3,006,337</u>	<u>\$ 1,981,067</u>	<u>1,870</u>	<u>\$ 21,431,983</u>
\$ 788,337	\$ -	\$ -	\$ 1,763,015
-	-	-	114,453
-	-	-	17,250
3,006,337	-	-	4,390,116
2,218,000	-	-	3,566,675
-	-	-	21,410
-	-	-	2,549,754
<u>6,012,674</u>	<u>-</u>	<u>-</u>	<u>12,422,673</u>
-	1,981,067	-	13,619,120
-	-	1,870	1,870
<u>(3,006,337)</u>	<u>-</u>	<u>-</u>	<u>(4,611,680)</u>
<u>(3,006,337)</u>	<u>1,981,067</u>	<u>1,870</u>	<u>9,009,310</u>
<u>\$ 3,006,337</u>	<u>\$ 1,981,067</u>	<u>\$ 1,870</u>	<u>\$ 21,431,983</u>

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

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

Total Fund Balance - Governmental Funds (Governmental Funds Balance Sheet)	\$ <u>9,009,310</u>
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Amount recorded as deferred revenue at fund level due to the restrictions placed by the period of availability, recognized as revenue on the Statement of Activities	<u>4,390,116</u>
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Capital assets total acquisition value	753,193
Total accumulated depreciation	<u>(635,349)</u>
Total capital assets, net	<u>117,844</u>

Long-term and other liabilities at year end consist of:

Compensated absences payable	<u>(152,046)</u>
Total long-term liabilities	<u>(152,046)</u>

Net assets of governmental activities (Statement of Net Assets)	\$ <u><u>13,365,224</u></u>
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The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

	<u>General Fund</u>	<u>JTIP Fund</u>	<u>Capital Projects Fund</u>
REVENUES			
Other revenue	\$ 4,710	\$ -	\$ -
Total revenues	<u>4,710</u>	<u>-</u>	<u>-</u>
EXPENDITURES			
Current:			
Personal services and benefits	3,138,836	16,316	-
Contractual services	1,980,241	-	1,070,743
Other	657,144	1,972,403	1,019,130
Capital outlay	<u>30,963</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>5,807,184</u>	<u>1,988,719</u>	<u>2,089,873</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(5,802,474)</u>	<u>(1,988,719)</u>	<u>(2,089,873)</u>
OTHER FINANCING SOURCES (USES)			
State General Fund appropriations	6,455,000	6,000,000	-
Transfers out - Reversions to State General Fund FY11	(706,688)	-	-
Severance Tax Bond Proceeds	-	-	2,650,773
Transfers in (out) - Other	<u>-</u>	<u>1,250,000</u>	<u>-</u>
Total other financing sources (uses)	<u>5,748,312</u>	<u>7,250,000</u>	<u>2,650,773</u>
NET CHANGE IN FUND BALANCES	(54,162)	5,261,281	560,900
BEGINNING FUND BALANCE	<u>51,641</u>	<u>6,376,772</u>	<u>(2,163,722)</u>
ENDING FUND BALANCE	<u>\$ (2,521)</u>	<u>\$ 11,638,053</u>	<u>\$ (1,602,822)</u>

Major Funds

STB Capital Projects Fund	Revolving Loan Community Development Fund	ISO 9000 Fund	Total
\$ -	\$ 1,438	\$ 1,870	\$ 8,018
-	1,438	1,870	8,018
-	-	-	3,155,152
-	-	-	3,050,984
3,752,146	-	-	7,400,823
-	-	-	30,963
<u>3,752,146</u>	<u>-</u>	<u>-</u>	<u>13,637,922</u>
<u>(3,752,146)</u>	<u>1,438</u>	<u>1,870</u>	<u>(13,629,904)</u>
-	-	-	12,455,000
-	-	-	(706,688)
745,809	-	-	3,396,582
-	-	-	1,250,000
<u>745,809</u>	<u>-</u>	<u>-</u>	<u>16,394,894</u>
<u>(3,006,337)</u>	<u>1,438</u>	<u>1,870</u>	<u>2,764,990</u>
<u>-</u>	<u>1,979,629</u>	<u>-</u>	<u>6,244,320</u>
<u>\$ (3,006,337)</u>	<u>\$ 1,981,067</u>	<u>\$ 1,870</u>	<u>\$ 9,009,310</u>

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

**STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2012**

Net Changes in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ 2,764,990

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

Amount of change in deferred revenue, recorded at the fund level due to the restrictions placed by the period of availability, recognized as revenue on the Statement of Activities 2,445,437

In the Statement of Activities, transfers in for capital assets 50,047

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

Capital outlay	<u>30,963</u>
Depreciation expense	<u>(20,828)</u>

Change in compensated absence balance not recorded in governmental funds 15,835

Change in net assets of governmental activities
(Statement of Activities) \$ 5,286,444

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

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

GENERAL FUND (18900)				
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
P-512 ECONOMIC DEVELOPMENT				
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General Fund	2,887,000	2,887,000	2,887,000	-
Other State funds	-	13,168,400	85	(13,168,315)
Inter-agency transfers	-	-	-	-
TOTAL REVENUES	\$ 2,887,000	\$ 16,055,400	\$ 2,887,085	\$ (13,168,315)
EXPENDITURES				
Personal services and benefits	\$ 1,672,000	\$ 1,672,000	\$ 1,370,967	\$ 301,033
Contractual services	1,057,400	1,050,000	1,048,057	1,943
Other costs	157,600	13,333,400	108,405	13,224,995
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ 2,887,000	\$ 16,055,400	\$ 2,527,429	\$ 13,527,971
P-514 FILM				
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General Fund	868,100	868,100	868,100	-
Other State funds	-	-	4,157	4,157
Inter-agency transfers	-	-	-	-
TOTAL REVENUES	\$ 868,100	\$ 868,100	\$ 872,257	\$ 4,157
EXPENDITURES				
Personal services and benefits	\$ 648,500	\$ 531,300	\$ 445,177	\$ 86,123
Contractual services	97,800	190,000	170,944	19,056
Other costs	121,800	146,800	121,602	25,198
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ 868,100	\$ 868,100	\$ 737,723	\$ 130,377

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

GENERAL FUND (18900) (CONTINUED)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> (Budgetary Basis)	<u>Final Budget</u> Positive (Negative)
<u>P-515 MEXICAN AFFAIRS</u>				
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General Fund	88,300	88,300	88,300	-
Other State funds	-	-	-	-
Inter-agency transfers	-	-	-	-
TOTAL REVENUES	<u>\$ 88,300</u>	<u>\$ 88,300</u>	<u>\$ 88,300</u>	<u>\$ -</u>
EXPENDITURES				
Personal services and benefits	\$ -	\$ 7,372	\$ 7,372	\$ -
Contractual services	51,800	6,156	4,458	1,698
Other costs	36,500	74,772	61,643	13,129
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 88,300</u>	<u>\$ 88,300</u>	<u>\$ 73,473</u>	<u>\$ 14,827</u>
<u>P-526 PROGRAM SUPPORT</u>				
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General Fund	2,591,600	2,672,600	2,591,600	(81,000)
Other State funds	-	-	468	(468)
Inter-agency transfers	-	-	-	-
TOTAL REVENUES	<u>\$ 2,591,600</u>	<u>\$ 2,672,600</u>	<u>\$ 2,592,068</u>	<u>\$ (81,468)</u>
EXPENDITURES				
Personal services and benefits	\$ 1,526,400	\$ 1,526,400	\$ 1,306,063	\$ 220,337
Contractual services	842,000	781,875	755,582	26,293
Other costs	223,200	364,325	328,059	36,266
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 2,591,600</u>	<u>\$ 2,672,600</u>	<u>\$ 2,389,704</u>	<u>\$ 282,896</u>

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

GENERAL FUND (18900) (CONTINUED)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
P-529 TECHNOLOGY COMMERCIALIZATION				
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General Fund	20,000	20,000	20,000	-
Other State funds	-	-	-	-
Inter-agency transfers	-	-	-	-
TOTAL REVENUES	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
EXPENDITURES				
Personal services and benefits	\$ -	\$ 9,259	\$ 9,259	\$ -
Contractual services	6,000	1,200	1,200	-
Other costs	14,000	9,540	9,523	17
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ 20,000	\$ 19,999	\$ 19,982	\$ 17
				GENERAL FUND (18900)
				Actual Amounts (Budgetary Basis)
DEFICIENCY OF REVENUE UNDER EXPENDITURES AND OTHER FINANCING SOURCES (USES)				\$ (711,399)
GAAP BASIS RECONCILIATION				
Reversions				706,688
Prior year bills paid with current year funds				(795)
Current year bills paid with funds from next year				<u>59,668</u>
NET CHANGE IN FUND BALANCE				\$ <u>54,162</u>

**STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (BUDGETARY BASIS) (CONTINUED)**

Year Ended June 30, 2012

JOB TRAINING INCENTIVE PROGRAM (JTIP) FUND (63800)				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> (Budgetary Basis)	<u>Final Budget</u> Positive (Negative)
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General Fund	7,250,000	7,250,000	7,250,000	-
Other State funds	-	-	-	-
Inter-agency transfers	-	-	-	-
TOTAL REVENUES	<u>\$ 7,250,000</u>	<u>\$ 7,250,000</u>	<u>7,250,000</u>	<u>\$ -</u>
Budgeted fund balance				
EXPENDITURES				
Current				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contractual services	125,000	125,000	16,316	108,684
Other costs	7,125,000	7,125,000	1,797,704	5,327,296
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 7,250,000</u>	<u>\$ 7,250,000</u>	<u>1,814,020</u>	<u>\$ 5,435,980</u>
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)			5,435,980	
TIMING DIFFERENCE DUE TO ACCOUNTS PAYABLE			<u>(174,699)</u>	
NET CHANGE IN FUND BALANCE GAAP BASIS			<u>\$ 5,261,281</u>	

**STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (BUDGETARY BASIS) (CONTINUED)**

Year Ended June 30, 2012

REVOLVING LOAN COMMUNITY DEVELOPMENT FUND (02300)				
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts	Final Budget
			(Budgetary Basis)	Positive (Negative)
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General Fund	-	-	-	-
Other State funds	-	-	-	-
Interest	-	-	1,438	1,438
TOTAL REVENUES	\$ -	\$ -	1,438	\$ 1,438
Budgeted fund balance	\$ -	\$ 1,900,000		
EXPENDITURES				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contractual services	-	-	-	-
Other costs	-	1,900,000	-	1,900,000
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ -	\$ 1,900,000	-	\$ 1,900,000
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)			<u>1,438</u>	
NET CHANGE IN FUND BALANCE			<u>\$ 1,438</u>	

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

	ISO 9000 (20530)			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General Fund	-	-	-	-
Other State funds	-	-	-	-
Interest	-	-	1,870	1,870
TOTAL REVENUES	\$ -	\$ -	1,870	\$ 1,870
EXPENDITURES				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contractual services	-	-	-	-
Other costs	-	-	-	-
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ -	\$ -	-	\$ -
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)			<u>1,870</u>	
NET CHANGE IN FUND BALANCE			<u>\$ 1,870</u>	

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

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

NOTE 1 – DEFINITION OF REPORTING ENTITY

The reporting entity is the Economic Development Department (Department) of the State of New Mexico. The chief executive of the Department is the Secretary, who is appointed by the Governor of New Mexico and is a member of the Governor's Cabinet. The Department is a part of the executive branch of the primary government (the State of New Mexico) and these financial statements include all funds, account groups and activities over which the Department Secretary has oversight responsibility and which are controlled by or dependent on the Department. Control or dependence is determined by criteria such as budget adoption, taxing authority, funding and appointment of the respective government board. Using these criteria, no entities qualify for inclusion in these financial statements as component units of the Department.

The Department was established by the Economic Development Department Act, effective July 1, 1983, and as amended in Laws of 1991, Senate Bill 228 enacted by the legislature of the State of New Mexico. The purposes of the Department are as follows:

- Provide a coordinated statewide perspective with regard to economic development activities.
- Provide a database for local and regional economic development groups and serve as a comprehensive source of information and assistance to businesses wishing to locate or expand in New Mexico.
- Positively encourage new economic enterprises to locate in New Mexico and assist existing businesses to expand.
- Monitor the progress of state supported economic development activities and prepare annual reports of such activities, their status and their impact.
- Create and encourage methods designed to provide rapid economic diversification development that will create new employment opportunities for the citizens of the State, including the issuance of grants and loans to municipalities and counties for economic enhancement projects.
- Provide for technology commercialization projects as an incentive to industry locating or expanding in the State.
- Support technology transfer programs.
- Promote New Mexico as a technology state.
- Promote and market federal and state technology commercialization programs.
- Develop and implement enhanced statewide procurement programs.

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

NOTE 1 – DEFINITION OF REPORTING ENTITY (CONTINUED)

- Provide support and assistance in the creation and operation of development finance mechanisms, such as business development corporations and industrial and agricultural finance authorities, in order to ensure capital availability for business expansion and economic diversification.

Office of the Secretary

The Secretary is empowered to organize the Department and its divisions and may transfer or merge functions between divisions in the interest of efficiency and economy. The Administrative Services Division provides overall support.

Administrative Services Division

The Director of the Administrative Services Division is responsible to the Secretary to provide administrative support to all divisions and top-level managers. This division is responsible for the data processing, financial systems, budget, accounting, purchasing, personnel, financial reporting and federal grant functions for the other following divisions:

Economic Development Division. To provide a coordinated statewide perspective with regard to economic development activities. To serve as a comprehensive source of information and assistance to businesses to expand and encourage economic enterprises in New Mexico.

Trade Division. To promote and market New Mexico products and services to domestic and international consumers worldwide; establish New Mexico as the gateway to Mexico, encouraging American and foreign businesses to invest and relocate in the New Mexico-NAFTA region; and to assist the private sector in the creation, expansion and retention of export related jobs while increasing state revenues in collaboration with other divisions' efforts within the Department.

New Mexico Film Division. To promote and facilitate motion picture production in New Mexico; and to make better use of the State's resources for film, video and other media.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Reporting Entity

The financial statements for the Department have been prepared in conformity with generally accepted accounting principles (GAAP), as applied to governmental units as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting standards. GASB Statement 34, Statement 37, Statement 38 and Statement 54 establish financial reporting requirements for state and local governments throughout the United States.

The Department is responsible for the fair presentation of the accompanying financial statements in conformity with generally accepted accounting principles. The Department has prepared required supplementary information titled Management's Discussion and Analysis (MD&A), which precedes the basic financial statements. The Department's significant accounting policies are described below.

The chief executive of the Department is the Secretary, who is appointed by the Governor of New Mexico and is a member of the Governor's Cabinet. The Department is a component unit of the executive branch and these financial statements include all funds, account groups and activities over which the Department Secretary has oversight responsibility. Even though the Governor appoints the Secretary, that person has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

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 GASBS 39 for determining component units, the Department does not have any component units.

Government-wide and Fund Financial Statements

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

The government-wide Statement of Activities reflects both the gross and net costs that are being supported by general government revenues. Amounts reported as program revenues include: 1) charges for services; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes. 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. The Department has only one function (General Government). The primary function of the Department is to facilitate the creation, retention and expansion of jobs in New Mexico.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The net cost (by function) 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 with the emphasis on the major funds. 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.

Due to the change from modified accrual on the fund level financial statements and full accrual method of accounting used in preparation of the government wide financial statements, certain reconciling items created negative unrestricted net assets on the government wide financial statements. This negative balance is attributable to accrual of compensated absences liability on the government wide statement of net assets.

Basis of Presentation – Fund Accounting

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.

The Department classified General Fund (SHARE Fund 18900), Job Training Incentive Program (JTIP) (SHARE Fund 63800), Capital Project Fund (SHARE Fund 02800), STB Capital Project Fund (89200) and Revolving Loan Community Development Fund (SHARE Fund 02300) as major, based on the financial activity in these funds. In FY 2012, the Department additionally classified the ISO 9000 Fund (SHARE Fund 20530) as major.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Technology Enterprise Fund (SHARE Fund 38400) is presented as a part of the Operating Fund on the financial statements of the Department, as it no longer generates sufficient revenue to be accounted for separately.

The following fund types are used by the Department:

Governmental Funds - All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

General Fund - The General Fund 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 funded primarily through appropriations from the State of New Mexico General Fund (SHARE Fund 18900). General fund is a reverting fund.

Special Revenue Funds. The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Sources of revenue are primarily special appropriations of State, Federal and local Governments and private grants and revenues generated by various activities of the Department.

JTIP - to provide quick-response classroom and JTIP training to furnish qualified manpower resources for new or expanding industries and non-retail service sector business in New Mexico, created by 21-19-11, NMSA 1978. This is a non-reverting fund (SHARE Fund 63800).

ISO9000 Registration Fee Revenue - In agreement with New Mexico Manufacturing Extension Partnership, the New Mexico Economic Development Department receives registration fee revenue which originates and is charged for ISO9000 courses. The agency receives a portion of this revenue for each business that successfully completes the course (SHARE Fund 20530). This is a non-reverting fund.

Revolving Loan Community Development - to account for the Community Development Assistance Revolving Loan Fund created by Chapter 299, Laws of 1983. Low-interest loans are made to political subdivisions of New Mexico for the construction or implementation of projects encouraging the expansion of industry within the political subdivisions. This is a non-reverting fund (SHARE Fund 02300).

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Projects Funds.

The Capital Projects Fund accounts for the acquisition and construction of major capital facilities and other capital projects in the State of New Mexico. This fund was created by Laws of 2003, Chapter 429, Section 31. Unspent funds will revert upon individual project completion (SHARE Fund 02800).

The Severance Tax Bonds Capital Projects Fund was established at the beginning of FY 2012 to track capital projects funded by Severance Tax Bonds. Unspent funds will revert upon individual project completion (SHARE Fund 89200).

The capital projects funds have a deficit fund balance of \$4,609,159 as of June 30, 2012. The deficit is partially attributable to the Department reimbursing capital projects that should be funded through severance tax bonds out of the fund balance, and not compensating the fund balance by drawing on the applicable severance tax bonds in a timely manner. The severance tax bonds proceeds for the expenditures incurred at June 30, 2012 are reflected in the deferred revenue of the Department due to the fact that the availability period of the revenue extends past 60 days from the fiscal year end, and amounts to \$4,390,016. The remaining deficit of \$219,043 is attributable to expenditures incurred on severance tax bond funded projects not drawn on a timely basis, allowing the severance tax bond appropriations to lapse, creating a deficit in the fund balance of the fund.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus. The fund financial statements are reported using the modified accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes is recognized in the fiscal year for which the taxes are collected. Revenue from appropriations is recognized in the fiscal year for which the taxes are collected. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund types follow the modified accrual basis of accounting for financial statement purposes. Under the modified accrual basis of accounting, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period (available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, typically 60 days). Expenditures, other than vacation, compensatory and with pay, are recorded when they are incurred.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The exception to this general rule is principal and interest on general long-term debt, if any, is recognized when due.

Budgets and Budgetary Accounting

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

Per the General Appropriation Act, Laws of 2007, Chapter 28, Section 3, item N, "For the purpose of administering the General Appropriation Act of 2007 and approving operating 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 the 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 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 in the notes to financial statements. Legal budgetary control for expenditures and encumbrances is by category of the appropriation unit.

Deferred Revenues

Deferred revenues represent a liability for the Governmental Funds. Deferred revenues are used to account for (1) amounts received from federal grants prior to expenditures occurring, or (2) amounts identified as accounts receivable that have not been received within 60 days of the end of the fiscal year, and are accounted for on the modified accrual basis in the fund financial statements. No federal funds were available to the Department in FY 2012.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds on the balance sheets of the fund financial statements. Internal activity is eliminated at the government-wide 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.

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.

- i) Non-General Fund sources must be reverted to the State General Fund upon completion of the Project. (Section 6-5-10 NMSA 1978)
- ii) Grant funds from any governmental source, such as federal or state, direct or indirect, do not revert to the State General Fund unless specifically identified in the grant contract or appropriation law. Instead, any overdrawn grant funds must be reverted to the granting agency.

Unexpended and unencumbered cash balances of certain funds revert to the State General Fund at year-end. For certain funds, cash recoveries during the fiscal year from state dated warrants and prior year reimbursements are also due to the State General Fund. Amounts due to the State General Fund for the year ending June 30, 2012 should be paid on or before September 30, 2012. Reversions are not budgeted for.

Revenues, Expenditures and Expenses

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Interest is earned and accrued on Notes Receivable (see Note 8).

Expenditures are recognized when the related fund liability is incurred, except for the following permitted by accounting principles generally accepted in the United States of America:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid items and inventory costs are reported in the period when inventory items are consumed, rather than in the period purchased.

When an expense is incurred that meets the requirements of both restricted and unrestricted resources, the Department will first apply it to available restricted net assets.

Program Revenues

Program revenues are revenues that originate from the program or from parties other than the government's taxpayers or citizens as a whole, and 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.

Capital Assets

Capital assets consist of tangible personal property having a value equal to or greater than \$5,000 and an estimated useful life greater than one year, per Section 12-6-10 NMSA 1978. Capital assets are recorded at historical cost. Capital assets are depreciated over their estimated useful life using the straight-line mid-month convention. Salvage value is not included in the depreciation calculation.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the following estimated useful lives in years:

Equipment and Machinery	5
Furniture and fixtures	10
Data processing and software	5
Buildings and structures	20

The Department capitalizes computer software, whether purchased or developed internally, in accordance with guidelines provided by the GSD Rule NMAC Chapter 20, Part 1, Sections 2.20.1.9C(5) and 2.20.1.10C and FASB 86 accounting principles. The Department acquired or developed no software in FY 2012.

Fund Balances and Net Assets

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted or unrestricted (committed, assigned or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Executive Branch's intent to be used for specific purposes or, in some cases, by legislation. See Note 20 for additional information about fund balances.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the State's policy to spend committed resources first.

Restricted for In-Plant Training – Fund balance restricted for purposes of providing quick-response classroom and in-plant training to furnish qualified manpower resources for new or expanding industries and non-retail service sector business.

Restricted for Capital Projects – Fund balance restricted for future cost associated with the acquisition and construction of major capital facilities and other capital projects in the State of New Mexico.

Restricted for Revolving Loan Community Development – Fund balance restricted for purposes of making low-interest loans to political subdivisions of New Mexico for construction or implementation of projects encouraging the expansion of industry within the political subdivision.

Severance Tax Bond Proceeds

Severance tax bond proceeds were allocated by the State Legislature to the agency to administer disbursements to the project recipients, and the Department is not obligated in any manner for the related indebtedness. The Department recognizes severance tax bond proceeds as revenue when draw requests are issued for reimbursement from severance tax bond proceeds of project expenditures made by the Department. The capital assets associated with the project funded by the severance tax bonds are excluded from the Department's capital assets list; upon project completion, the Department does not retain titles to these assets, but rather passes them through to the beneficiaries (other New Mexico State agencies and local governments) of these projects.

Subsequent Events

Management evaluated subsequent events through December 17, 2012, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to December 17, 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 ECONOMIC DEVELOPMENT 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 (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 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 State 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. 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. Management believes that these changes will allow for the completion of a timely and accurate reconciliation on a point-forward basis only. 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.

The Department reconciles its deposits and other activity with the State Treasurer to the General Ledger on a periodic basis to ensure proper posting.

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

NOTE 4 - INTEREST 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.

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 a 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 Department has deposits, as defined in the Schedule of Individual Deposit Accounts, of \$13,555,329 with the Office of the State Treasurer in the State General Fund Investment Pool.

For a detailed listing of all agency bank accounts and State Treasurer SHARE accounts, see the schedule referred to above on page 60.

Detail of pledged collateral specific to this agency is unavailable because the bank comingles pledged collateral for all state funds it holds. However, the State Treasurer's Office Collateral Bureau monitors pledged collateral for all state funds held by state agencies in such "authorized" bank accounts. Refer to the Schedule of Pledged Collateral on page 61.

NOTE 5 - DUE TO/FROM OTHER FUNDS

This amount represents a receivable arising from expenditures paid by one fund on behalf of the other fund.

Interfund receivables:			
SHARE Fund	Fund Type	Due To	Due From
02300	Special Revenue		\$ 1,348,675
63800	Special Revenue		2,218,000
02800	Capital Projects	\$ 1,348,675	
89200	Capital Projects	2,218,000	
	Total	<u>\$ 3,566,675</u>	<u>\$ 3,566,675</u>

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

NOTE 6 - DUE TO/FROM OTHER STATE AGENCIES

NMEDD Fund	Purpose	Affiliate Name	Affiliate Fund	Due To	Due From
18900	To fund Agency's payroll	Dept. of Finance &	85300	\$ 21,410	
2800	To fund Capital Projects through Severance Tax Bonds	Dept. of Finance & Administration	81500		\$ 1,475,010
89200	To fund Capital Projects through Severance Tax Bonds	Dept. of Finance & Administration	81500		3,006,337
Total				<u>\$ 21,410</u>	<u>\$ 4,481,347</u>

NOTE 7 - DUE TO/FROM STATE GENERAL FUND

NMEDD Fund	Purpose	Affiliate Name	Affiliate Fund	Due To	Due From
02800	Reversion of Business Incubator Improvement project unspent funds	Dept. of Finance & Administration	39401	\$ 2,243	\$ -
02800	Reversion of Tucumcari In capital project unspent balance	Dept. of Finance & Administration	39401	19,810	-
18900	Reversion of cash held in Bank of Albuquerque per DFA instructions provided	Dept. of Finance & Administration	39401	219,255	-
18900	Stale Dated Warrants	Dept. of Finance & Administration	39401	7,200	-
18900	Reversion of unreserved. Undesignated balance in the operation fund at 06/30/2012	Dept. of Finance & Administration	39401	706,688	-
18900	Reversion of unreserved. Undesignated balance in the operation fund at 06/30/2011	Dept. of Finance & Administration	39401	538,316	-
18900	Reversion of unreserved. Undesignated balance in the operation fund at 06/30/2010	Dept. of Finance & Administration	39401	1,056,242	-
Total				<u>\$ 2,549,754</u>	<u>\$ -</u>

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

NOTE 8 - NOTES RECEIVABLE

A development fund was created by Chapter 299, Laws of 1983, amended by Senate Bill 228, to provide assistance to political subdivisions of the State for the construction and implementation of projects encouraging the location of industry in the political subdivisions. For this purpose, the Department is authorized to make low-interest loans to political subdivisions of the State. The amount of \$1,000,000 specifically appropriated for the development fund, plus interest earned thereon, is shown as reserved for community development.

No allowance for uncollectible accounts has been recognized, since the Department considers these notes to be fully collectible.

Fund Type	Principal	Accrued Interest	Total
Town of Red River, semi-annual payments of \$13,945, including interest at 2.130%, final payment due on April 1, 2013. (Original note of \$250,000.)	<u>\$ 28,011</u>	<u>\$ 621</u>	<u>\$ 28,632</u>

NOTE 9 - RELATED PARTY TRANSACTIONS

The Department is responsible for providing administrative support to the agencies it was once associated with: New Mexico Spaceport Authority, New Mexico Border Authority and New Mexico Military Base Planning and Support. However, the Department makes no executive decisions on behalf of these independent agencies and, therefore, is not accountable for any consequences, positive or otherwise, related to those decisions.

The Department is responsible for managing General Fund Appropriation, in addition to one Severance Tax bond, on behalf of New Mexico Spaceport Authority (NMSA). The funds were originally appropriated to the Department prior to the creation of NSMA. New Mexico Spaceport Development Act, Laws of 2005, Chapter 128, actually established NMSA. However, since the capital appropriation, along with the Severance Tax bond, were already authorized under the Department, the agency continued to manage the appropriations for NMSA. The Department's only responsibility is to settle invoices from various contractors of the capital projects undertaken by NMSA as received. The capital projects carried out for NMSA are not considered assets of the Department; accordingly, the Department bears no liability, if any, associated with those projects.

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

NOTE 10 – CAPITAL ASSETS

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets:				
Equipment and machinery	\$ 118,226	\$ 56,628	\$ -	\$ 174,854
Furniture and fixtures	21,131	-	-	21,131
Data processing and software	513,597	-	-	513,597
Building and structures	<u>19,229</u>	<u>24,382</u>	<u>-</u>	<u>43,611</u>
Total capital assets	<u>672,183</u>	<u>81,010</u>	<u>-</u>	<u>753,193</u>
Accumulated depreciation:				
Equipment and machinery	116,879	18,221	-	135,100
Furniture and fixtures	19,394	-	-	19,394
Data processing and software	466,624	-	-	466,624
Buildings and structures	<u>11,624</u>	<u>2,607</u>	<u>-</u>	<u>14,231</u>
Total accumulated depreciation	<u>614,521</u>	<u>20,828</u>	<u>-</u>	<u>635,349</u>
Net capital assets	<u>\$ 57,662</u>	<u>\$ 60,182</u>	<u>\$ -</u>	<u>\$ 117,844</u>

Land, buildings and automobiles used by the Department are not included in these financial statements, as those assets are included in the financial statements of the General Services Department.

Depreciation expense was charged to functions as follows:

Economic Development	\$ 3,959
Film	1,129
Mexican Affairs	112
Program Support	3,610
Technology Commercialization	32
Other initiatives	<u>11,986</u>
Total	<u>\$ 20,828</u>

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

NOTE 11 - DEFERRED REVENUE

The following receivables out of the Due from Other Agencies account in the Capital Projects Fund (SHARE Fund 02800) were recorded as deferred revenue at the fund level at June 30, 2012, as the amount had not been received within 60 days after the end of the fiscal year.

Severance Tax Bond	Law	Expiration Date	Amount
Infrastructure for New and Existing Businesses – LEDA	Laws of 2009	6/30/2014	\$ 51,298
Infrastructure for New and existing Businesses – LEDA	Laws of 2009	6/30/2014	2,955,039
Mainstreet Infrastructure Projects	Laws of 2009	6/30/2013	56,718
Tucumcari Downtown Infrastructure Project	Laws of 2009	6/30/2012	10,053
Mainstreet Central Business	Laws of 2009	6/30/2012	62,302
Economic Development Grants	Laws of 2009	6/30/2013	<u>1,254,706</u>
			<u>\$ 4,390,116</u>

NOTE 12 - COMPENSATED ABSENCES

Qualified employees are entitled to accumulate annual leave as follows: A maximum of 240 hours of such accumulated annual leave may be carried forward into the beginning of the calendar year and any excess 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.

Qualified employees are entitled to accumulate sick leave at the rate of 3.69 hours per pay period.

Employees who have accumulated 600 hours of unused sick leave are entitled to be paid for additional unused sick leave at a rate equal to 50 percent of their hourly rate of pay for up to 120 hours of sick leave. Payment for unused sick leave may be made only once per fiscal year on either the payday immediately following the first full pay period in January or the first full pay period in July. Immediately prior to retirement from service, employees who have accumulated 600 hours of unused sick leave are entitled to be paid for additional unused sick leave at a rate equal to 50 percent of their hourly rate for up to 400 hours of sick leave.

All sick leave balances from 600 to 1,000 hours have been recorded at 50 percent of the employee's current hourly rate, including those amounts paid in July of the subsequent fiscal year, because no expendable financial resources are available as of the balance sheet date to liquidate the liability.

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

NOTE 12 - COMPENSATED ABSENCES (CONTINUED)

The changes in compensated absences for government type activities are as follows:

	Balance June 30, 2011	Increase	(Decrease)	Balance June 30, 2012	Amounts Due Within One Year
Compensated absences	<u>\$ 167,881</u>	<u>\$ 134,240</u>	<u>\$ (150,075)</u>	<u>\$ 152,046</u>	<u>\$ 152,046</u>

The General Fund was used to liquidate long-term liabilities in prior years.

There was no short-term debt activity in FY 2012.

NOTE 13 - REVERSIONS

Current year reversions to the State General Fund as of June 30, 2012 were as follows:

Appropriation Year	Fund Type	SHARE System Fund	Reversion
Laws of 2012	General Fund	18900	\$ 706,688

In accordance with statute Section 6-5-10(A) NMSA 1978, all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert. The balance of \$2,549,754, (\$1,141,453 of prior year unsettled reversions and \$706,688 of the current year reverting balance) is payable at June 30, 2012 and 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. The Department will pay the remainder of the reversions payable during fiscal year 2013.

NOTE 14 - 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

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

NOTE 14 - PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
(CONTINUED)

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 8.92% of their gross salary. The Department is required to contribute 15.09%. 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 \$308,169, \$464,907 and \$542,848, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 15 - 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 post-employment 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.

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

**NOTE 15 - POST EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

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:

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%

All 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 \$41,937, \$50,847 and \$46,453, respectively, which equal the required contributions for each year.

NOTE 16 - OPERATING LEASE COMMITMENT

The Department is committed under lease for some of the Department's office equipment and office space in Las Cruces, New Mexico. These leases are considered for accounting purposes to be operating leases and are not reflected in the Department's account groups. Lease expenditures for the year ended June 30, 2012 amounted to \$122,335.

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

NOTE 16 - OPERATING LEASE COMMITMENT (CONTINUED)

The following is a schedule by years of future minimum lease payments required under operating leases that have initial or remaining non-cancelable terms in excess of one year as of June 30, 2012.

Years ending June 30:

2013	\$ 69,433
2014	63,733
2015	58,740
2016	1,882
2017	-
2018 and thereafter	-
Total	<u>\$ 193,788</u>

NOTE 17 - CONTINGENT LIABILITIES (CLAIMS AND JUDGMENTS)

The Department as a State Agency defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the General Services Department of the State of New Mexico. The Office of Risk Management Division pays annual premiums for coverage provided in the following areas:

- Liability and civil rights protection for claims made by others against the State of New Mexico;
- Coverage to protect the State of New Mexico's property and assets; and
- Fringe benefit coverage for State of New Mexico employees.

In the case of civil actions or claims against the Department for financial damages, the Department's certificate of insurance with Risk Management does not cover claims for back wages but does cover civil rights claims for other compensatory damages.

NOTE 18 - OPERATING TRANSFERS

EDD SHARE Fund	Affiliate Agency	Affiliate SHARE Agency	Transfers In	Transfers Out
18900	Dept. of Finance & Administration	34100	\$1,250,000	-

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

NOTE 19 - RISK MANAGEMENT

The Department, as a State Agency defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the General Services Department of the State of New Mexico. The Office of Risk Management Division pays annual premiums for coverage provided in the following areas:

- Liability and civil rights protection for claims made by others against the State of New Mexico;
- Coverage to protect the State of New Mexico's property and assets; and
- Fringe benefit coverage for State of New Mexico employees.

In the case of civil actions or claims against the Department for financial damages, the Department's certificate of insurance with Risk Management does not cover claims for back wages but does cover civil rights claims for other compensatory damages.

The Department had no significant reductions in insurance coverage from prior year. In the fiscal years ended June 30, 2012, 2011 and 2010, there were no settlements that exceeded insurance coverage.

NOTE 20 – RESTRICTED FUND BALANCES

The Department's fund balances represent: 1) Restricted purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; 2) Committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; 3) Assigned purposes, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. A summary of the nature and purpose of these reserves by fund type at June 30, 2012 follows:

	<u>General Fund</u>	<u>Major Special Revenue Funds</u>	<u>Major Capital Projects Fund</u>
Fund Balances:			
Restricted for:			
In-Plant Training (Section 21-19-11 NMSA 1978)	\$ -	\$ 11,638,053	\$ -
Revolving Loan Community Development (Laws of 1983, Ch. 299)	-	1,981,067	-
Assigned:			
ISO 9000	-	1,870	-
Unassigned	<u>(2,521)</u>	<u>-</u>	<u>(4,609,159)</u>
Total fund balances	<u>\$ (2,521)</u>	<u>\$ 13,620,990</u>	<u>\$ (4,609,159)</u>

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

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR CAPITAL PROJECTS FUND -
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2012

	CAPITAL PROJECTS FUND (02800)			
	Life to Date Budgeted Amount	FY 2012 Amount Budgetary Basis	Life to Date Actual Amount (Budgetary Basis)	Variance Over (Under)
REVENUES				
Capital Outlay Appropriations	\$ 2,250,000	\$ -	\$ 2,250,000	\$ -
Severance tax Bonds Proceeds	11,250,000	2,650,773	8,599,227	2,650,773
TOTAL REVENUES	<u>\$ 13,500,000</u>	<u>\$ 2,650,773</u>	<u>\$ 10,849,227</u>	<u>\$ 2,650,773</u>
EXPENDITURES				
Personal services and benefits	\$ -	-	\$ -	\$ -
Contractual services	-	1,070,743	1,070,743	-
Other costs	-	1,019,130	1,019,130	-
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 13,500,000</u>	<u>\$ 2,089,873</u>	<u>2,089,873</u>	<u>\$ -</u>
DEFICIT OF REVENUE UNDER EXPENDITURES AND OTHER FINANCING SOURCES (USES)			<u>560,900</u>	
NET CHANGE IN FUND BALANCE			<u>\$ 560,900</u>	

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

STB CAPITAL PROJECTS FUND (89200)				
	Life to Date Budgeted Amount	FY 2012 Amount Budgetary Basis	Life to Date Actual Amount (Budgetary Basis)	Variance Over (Under)
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
Severance Tax Bonds	7,500,000	7,500,000	745,809	(6,754,191)
Other State funds	8,319,349	8,319,349	-	(8,319,349)
Interest	-	-	-	-
TOTAL REVENUES	\$ 15,819,349	\$ 15,819,349	745,809	\$ (15,073,540)
Budgeted fund balance	\$ -	\$ 1,900,000		
EXPENDITURES				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contractual services	-	-	-	-
Other costs	8,318,349	8,318,349	3,752,146	4,566,203
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ 8,318,349	\$ 8,318,349	3,752,146	\$ 4,566,203
DEFICIT OF REVENUE UNDER EXPENDITURES AND OTHER FINANCING SOURCES (USES)			<u>(3,006,337)</u>	
NET CHANGE IN FUND BALANCE			<u>\$ (3,006,337)</u>	

*Deferred Revenue of \$3,006,337 was recorded and will reverse some of the deficit balance in future years.

STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
SCHEDULE 1 - MULTIPLE-YEAR CAPITAL PROJECTS FUNDED BY SPECIAL AND
SEVERANCE TAX CAPITAL OUTLAY APPROPRIATIONS FROM THE STATE
Year Ended June 30, 2012

Project Description	Expiration	Amount Appropriated	Current Year Expenditures	Current Year Reversions	Prior Year Incurred Balance	Balance as of June 30, 2012
<u>Special Capital Outlay Appropriations</u>						
Media Production Education and Training	6/30/2012	\$ 250,000	\$ 5,000	\$ -	\$ 181,772	\$ 63,228
Albuquerque Eclipse Aviation	6/30/2012	2,000,000	-	-	1,980,000	20,000
Total Capital Appropriations		<u>2,250,000</u>	<u>5,000</u>	<u>-</u>	<u>2,161,772</u>	<u>83,228</u>
<u>Severance Tax Bond Proceeds</u>						
Economic Development Grants	6/30/2013	3,500,000	1,000,000	-	2,500,000	-
Mainstreet Central Business	6/30/2013	1,250,000	25,225	-	1,224,764	11
Mainstreet Infrastructure projects statewide	6/30/2013	1,000,000	453,401	-	325,643	220,956
Tucumcari Downtown Infrastructure	6/30/2012	500,000	500,000	-	-	-
X-Prize Cup Spaceport Show Infr	6/30/2011	4,000,000	106,247	95,880	3,797,575	298
Economic Development Mainstreet Projects	6/30/2016	1,000,000	-	-	-	1,000,000
Infrastructure for New and Existing Businesses - LEDA	6/30/2014	3,000,000	797,106	-	-	2,202,894
Infrastructure for New and Existing Businesses - LEDA	6/30/2014	4,500,000	2,955,040	-	-	1,544,960
Total Severance Tax Bonds		<u>18,750,000</u>	<u>5,837,019</u>	<u>95,880</u>	<u>7,847,982</u>	<u>4,969,119</u>
Total Capital Projects		<u>\$ 21,000,000</u>	<u>\$ 5,842,019</u>	<u>\$ 95,880</u>	<u>\$ 10,009,754</u>	<u>\$ 5,052,347</u>

STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
SCHEDULE 2 - SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS
June 30, 2012

<u>Fund Name</u>	<u>Fund Number</u>	<u>Fund Type</u>	<u>Depository</u>	<u>Unadjusted Balances</u>	<u>Adjustments/ Reconciling Items</u>	<u>Reconciled Balance per Books</u>
Cash with State General Fund Investment Pool (with SHARE fund numbers):						
General Fund	18900	Operating	State Treasury	\$ 2,994,847	\$ -	\$ 2,994,847
In-Plant Training Fund	63800	Special revenue	State Treasury	11,921,211	(2,218,000)	9,703,211
Revolving Loan Community Development	02300	Special revenue	State Treasury	1,938,491	(1,334,731)	603,760
Technology Enterprise Fund	38400 *	Special revenue	State Treasury	51,641	-	51,641
ISO 9000	20530	Special revenue	State Treasury	1,870	-	1,870
Capital Projects Fund	89200	Capital project	State Treasury	(2,218,000)	2,218,000	-
Capital Projects Fund	02800	Capital project	State Treasury	(1,334,731)	1,334,731	-
Total Governmental Cash with State General Fund				<u>\$ 13,355,329</u>	<u>\$ -</u>	<u>\$13,355,329</u>

* Reported in General Fund 18900

**STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
SCHEDULE 3 - SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2012**

	Accounts at State General Investment Fund	Total
Total amount of deposit	\$ 13,355,329	\$ 13,355,329
Less FDIC	-	-
Total uninsured public money	13,355,329	13,355,329
50% collateral	6,677,665	6,677,665
State Agency Collateral Listing	A	A
Total pledged	-	-
Over (under) pledged	A	A

A: This amount is held at the Office of the State Treasurer and is detailed in the report of the Office of the State Treasurer, whose audit is covered by a separate report. Detail specific for the collateral is commingled by the Office of the State Treasurer, and it monitors the adequacy of the funds pledged for collateral to ensure the full coverage as required by the Laws of the State of New Mexico and related statutes.

Custodian: Federal Home Loan Bank, Dallas
Name Security in: New Mexico General Investment Fund

The deposits are fully secured since they are in the name of the New Mexico State General Investment Fund and are held at a separate depository institution that is not affiliated with the depository institution.

**STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
SCHEDULE 4 - MEMORANDA OF UNDERSTANDING
YEAR ENDED JUNE 30, 2012**

Responsible Party	Description	Term
PCD/GSD	Division (PCD), to transfer money received by the Department from PDC to the United States General Services Agency for infrastructure improvements to the Santa Teresa Port of Entry.	12/13/07 to project completion
City of Albuquerque, NM	MOU between the Department, and the City of Albuquerque, NM, to provide assistance to a solar equipment economic development project in Bernalillo County.	2/27/09 - 6/30/12
City of Albuquerque	MOU between City of Albuquerque and the Department to promote or enhance local efforts	3/31/2010 - 6/30/2013
City of Alamogordo, NM	MOU between the Department, and the City of Alamogordo, NM.	8/31/09 - 6/30/14
City of Bloomfield, NM	MOU between the Department, and the City of Bloomfield, New Mexico, to promote or enhance local economic development efforts	9/9/09 - 6/30/14
Catron County, NM	MOU between the Department and Catron County, NM, to promote or enhance local economic development efforts.	9/28/09 - 6/30/12
Pegasus Global, LLC	MOU between Pegasus Global and the Department to develop an essential infrastructure project.	2/2/2010 - project completion
City of Espanola	MOU between the City of Espanola and the Department to develop an essential infrastructure project.	6/4/2009 - 6/30/2014
NM Smart Grid Initiative Galvin Electricity Initiative	MOU between Galvin Electric and the Department to optimize the development of a Smart Grid in New Mexico.	6/30/2011 - 12/31/2014

Total Amount of Project	Amount Applicable to EDD	Amount Department Contributed During FY12	Amount Paid Up-to-Date	Audit Responsibility	Agency Reporting Revenue & Expense
\$ 250,000	\$ 250,000	\$ -	\$ 250,000	New Mexico Economic Development Dept.	New Mexico Economic Development Dept.
\$ 8,000,000	\$ 8,000,000	\$ -	\$ 8,000,000	City of Albuquerque, NM	City of Albuquerque, NM
\$ 2,000,000	\$ 2,000,000	\$ -	\$ 2,000,000	City of Albuquerque, NM	City of Albuquerque, NM
\$ 400,000	\$ 400,000	\$ -	\$ 400,000	City of Alamogordo, NM	City of Alamogordo, NM
\$ 300,000	\$ 300,000	\$ -	\$ 300,000	City of Bloomfield, NM	City of Bloomfield, NM
\$ 250,000	\$ 250,000	\$ -	\$ 250,000	Catron County, NM	Catron County, NM
N/A	N/A	N/A	N/A	N/A	N/A
\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	City of Espanola, NM	City of Espanola, NM
N/A	N/A	N/A	N/A	N/A	N/A

**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***

Mr. Jon Barela, Secretary
State of New Mexico Economic Development Department and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the financial statements of the governmental activities, each major fund, the budgetary comparisons for the general fund and major special revenue funds, and the major capital projects funds budgetary comparisons presented as supplemental information of the State of New Mexico Economic Development Department (Department), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 17, 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all 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 a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses, which we consider to be a significant deficiency in internal control over financial reporting (2009-1). 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.

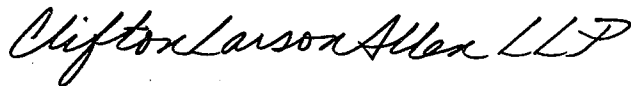
Compliance and Other Matters

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 a certain other matter that is required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which is described in the accompanying findings and responses as finding 2009-1.

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 the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the Department, the audit committee, the State Auditor and the New Mexico Legislature, and is not intended to be and should not be used by anyone other than these specified parties.



Albuquerque, New Mexico
December 17, 2012

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

Section I – Summary of Auditors’ Results

1. The auditors’ report expresses an unqualified opinion on the basic financial statements of the New Mexico Economic Development Department (Department).
2. One significant deficiency was disclosed during the audit of the financial statements.
3. There was no instance of noncompliance material to the financial statements of the Department disclosed during the audit.
4. No material weaknesses were disclosed during the audit of the financial statements.

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

Section II – Financial Statement Findings

Finding 2009-1 Untimely Reversion to State General Fund (Significant Deficiency)

Condition: The Department did not revert funds which were discovered and recorded during the FY11 audit.

Criteria: Section 6-5-10(A) NMSA 1978 requires all unreserved, undesignated fund balances in reverting funds, and unexpended funds in the lapsed appropriation to be reverted to the New Mexico State General Fund by September 30 of the next fiscal year. All reversions were due by September 30, 2011. During the FY12 audit, we noted they still had not been reverted. However, FY12 amounts were reverted timely.

Cause: Lack of proper controls over reversions payable and management oversight. It was noted that the Department transferred 2012 reversions before the September 30 deadline.

Effect: The Department is not in compliance with Section 6-5-10(A) NMSA 1978.

Recommendation: The Department should establish procedures to ensure timely transfer of funds that are scheduled to be reverted to the New Mexico State General Fund by September 30.

Management's Response: The Department has hired a new ASD Director/CFO. She understands the importance of timely reversions. The 2012 reversions were completed timely and deadlines will be adhered to going forward. This reversion is currently being processed.

STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012

Finding 2011-1 Capital Assets Inventory (Significant Deficiency) – Cleared

Finding 2011-2 Lack of Effective Reconciliation Procedures over Severance Tax Bonds Funding and Capital Appropriations (Material Weakness) – Cleared

Finding 2011-3 Travel Approval (Significant Deficiency) – Cleared

Finding 2011-4 Lack of Payroll Accrual Reconciliation (Material Weakness) – Cleared

Finding 2011-5 Late Filing of Audit Report – Cleared

Finding 2010-2 Maintenance of Capital Assets (Significant Deficiency) – Cleared

Finding 2009-1 Untimely Reversion to State General Fund (Significant Deficiency) – Repeated and modified

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

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

ECONOMIC DEVELOPMENT DEPARTMENT

Barbara Brazil, Deputy Cabinet Secretary
Jennifer Moseley, ASD Director/CFO
Georgette Chavez, Finance Bureau Chief

CLIFTONLARSONALLEN LLP

Janet Pacheco-Morton, CPA, CGFM, Assurance Partner
Jennifer White, CPA, Assurance Senior

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.