



**STATE OF NEW MEXICO
ECONOMIC DEVELOPMENT DEPARTMENT**

**FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2013

atkinson

PRECISE. PERSONAL. PROACTIVE.

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State of New Mexico Economic Development Department

OFFICIAL ROSTER

June 30, 2013

OFFICE OF THE SECRETARY

Jon Barela, Cabinet Secretary

Barbara Brazil, Deputy Cabinet Secretary

Angela Heisel, Communications Director

ADMINISTRATIVE SERVICES

Barbara Brazil, Deputy Cabinet Secretary

Georgette Chavez, Audit/Accounting Bureau Chief

Jennifer Moseley, CFO through October 2013

Therese Trujillo, ASD Director beginning December 2013



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Report on Financial Statements

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 (the Department) as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents. We have also audited the Department's budgetary comparison schedules for the major capital projects funds presented as supplementary information for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the State of New Mexico Economic Development Department as of June 30, 2013, and the respective changes in financial position and the aggregate remaining fund information and respective budgetary comparisons of the general fund and special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the budgetary comparison schedules for the capital projects funds for the year ended June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note B, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, major funds and aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2013, and the changes in financial position and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

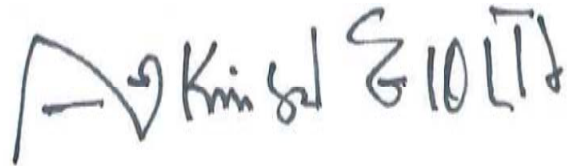
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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.

Other Information

Our audit was performed for the purpose of forming opinions on the basic financial statements and the budgetary comparison schedules for the capital projects funds presented as supplementary information. The accompanying multiple year capital projects funded by special and severance tax capital outlay appropriations from the state, schedule of individual deposit accounts, memoranda of understanding, and schedule of pledged collateral are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' and a checkmark-like shape.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 13, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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, 2013.

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, 2013, the total assets of the Department exceeded total liabilities by \$16,334,306.
- The Department acquired \$8,364 in total capital assets with individual acquisition values greater than \$5,000.
- Of the \$21,799,988 in total current assets, nearly 90% was in the form of cash and investments in the State General Fund Investment Pool.
- The total cost of Department programs was \$13,054,162, whereas the total Department revenue was \$13,871,346. Reversions to State General Fund amounted to \$554,292.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2013

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.

The statement of net position presents information on all of the Department's assets and liabilities and deferred inflows and outflows of resources, with the difference between the two reported as total net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 28 and 33 of this report.

Other Information. Supplemental information begins on page 56.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2013

Government-Wide Financial Analysis

As mentioned earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Department, assets exceeded liabilities by \$16,334,306 at the close of the 2013 fiscal year.

The largest portion of Department net position (approximately 95%) is associated with 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 2013 fiscal year, the Department was able to report positive balances in the category of net position. The same situation held true for the prior fiscal year.

Governmental Activities

Governmental activities increased the Department's net position by \$262,892.

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 2013 fiscal year, the Department's governmental funds reported combined ending fund balances of \$16,431,350, an increase (after restatement) of \$4,679,015 in comparison with the prior year. The majority of this amount is derived from the Job Training Incentive Program (JTIP) (63800) and constitutes reserve 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 2013 fiscal year, unassigned fund balance of the General Fund was \$0. This amount is not associated with non-committed funding from the JTIP and the Community Development Loan Fund.

During the 2013 fiscal year, the net change in fund balance of the Department's General Fund increased by \$756,844. Fund balance was \$0 at June 30, 2013 in the General Fund.

The Department's assets at the fund level are mostly comprised of investment in the State General Fund Investment Pool, which is \$19,423,188 or 88%. The fund liabilities are made up mostly of accounts payable, \$3,566,371, or 60%. As mentioned earlier, the Department's largest source of income comes from State General Fund Appropriations. The Department spent 17%, or \$2,088,610, on contractual services. The largest expenditure category is "other" expenditures, which include funding the JTIP and other programs. The Department spent \$2,964,418, or 23%, in this category.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2013

Financial Analysis of the Government's Funds - Continued

During the 2013 fiscal year, management determined that \$2,743,024 of cash was received in July 2012 which was improperly included as deferred revenue as of June 30, 2012 and recorded a prior period restatement to net position and governmental fund balance.

Financial Analysis of the Department as a Whole

Net Position

The Department's condensed net position changed from fiscal year 2012, increasing from \$13.4 million, before restatement, to \$16.3 million, which represented a 22% change.

**Detail of the Department's Condensed Net Position
as of June 30, 2013 and 2012**

	FY 2013	FY 2012	Amount Change	Total % Change
Governmental Activities				
Assets:				
Current assets	\$ 21,732,154	\$ 17,865,308	\$ 3,866,846	22%
Capital and non-current assets	67,834	117,844	(50,010)	-42%
Total assets	<u>\$ 21,799,988</u>	<u>\$ 17,983,152</u>	<u>\$ 3,816,836</u>	21%
Liabilities:				
Current liabilities	<u>\$ 5,465,682</u>	<u>\$ 4,617,928</u>	<u>\$ 847,754</u>	18%
Total liabilities	5,465,682	4,617,928	847,754	18%
Net position:				
Invested in capital assets	67,834	117,844	(50,010)	-42%
Restricted	16,707,374	13,437,981	3,269,393	24%
Unrestricted	<u>(440,902)</u>	<u>(190,601)</u>	<u>(250,301)</u>	131%
Total net position	<u>16,334,306</u>	<u>13,365,224</u>	<u>2,969,082</u>	22%
Total liabilities and net position	<u>\$ 21,799,988</u>	<u>\$ 17,983,152</u>	<u>\$ 3,816,836</u>	21%

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2013

Statement of Activities

The Department's change in net position for fiscal year 2013 was an increase of \$262,892 (Statement of Activities). 97% of the Department's revenue comes from State General Fund Appropriations. Total revenues and transfers for fiscal year 2013 were \$13,281,231, of which 101% is State General Fund Appropriations.

Statement of Activities

	FY 2013	FY 2012	Amount Change	Total % Change
Governmental Activities				
Revenues:				
Program revenue	\$ 35,823	\$ 8,283	\$ 27,540	332%
Operating grants	-	-	-	0%
Total program revenues	35,823	8,283	27,540	332%
General revenues:				
State General Fund appropriations	13,297,205	12,455,000	842,205	7%
Other	-	-	-	0%
Total general revenues	13,297,205	12,455,000	842,205	7%
Total revenues	13,333,028	12,463,283	869,745	7%
Expenses:				
Economic development	13,054,162	13,612,217	(558,055)	-4%
Other sources (uses):				
Severance tax bonds proceeds	487,930	5,842,019	(5,354,089)	-92%
Operating financing sources (uses)	(503,904)	593,359	(1,097,263)	-185%
Total expenses	13,070,136	7,176,839	5,893,297	82%
Change in net position	262,892	5,286,444	(5,023,552)	-95%
Net position, beginning before restatement	13,365,224	8,078,780	5,286,444	65%
Prior period restatement	2,706,190	-	2,706,190	
Net position, beginning after restatement	16,071,414	8,078,780	7,992,634	99%
Net position, ending	<u>\$ 16,334,306</u>	<u>\$ 13,365,224</u>	<u>\$ 2,969,082</u>	22%

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2013

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 \$67,834 (net of accumulated depreciation). This investment in capital assets includes machinery and equipment. The Department expended \$8,364 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 \$847,754 over the previous fiscal year. The key factors in this increase was an increase in accounts payable and decrease in 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 FY13, the Department was forced to reduce its spending to be in alignment with the General Fund revenue.

Department Overview

In FY13 the Department held 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 in FY14 is anticipated to be less bleak than that experienced during FY13.

Department Efficiency

In FY13 the Department made the decision to contract with the State Personnel Office to provide human resource assistance in lieu of replacing a full time employee (FTE) in the HR role. Additionally, the Administrative Services Division Director assumed the responsibilities of the Information Technology (IT) manager and restructured the two IT staff to cover the needed services. During much of the year as many as 11 vacancies occurred in the Department. Division directors worked diligently and it is anticipated that all of those positions will be filled by December 2014.

Due to cuts in HB2, four positions were eliminated through attrition and the Department did not fill five additional positions. Despite the cuts, the Department operated with sufficient efficiency to fulfill all its funded statutory obligations and launch a number of new programmatic initiatives. Staffing of FTEs went down from 70 in FY10 to 65 in FY11 to 56 in FY12 and then to 52 in FY13.

However, even with the issues discussed above, the Department has had many successes to celebrate in fiscal year 2013. The Department has two approaches to creating jobs and wealth in New Mexico: growing communities and growing and relocating businesses.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2013

Department Efficiency - Continued

The Department undertook a state-wide strategic planning process seeking input and direction from the regional and local economic development communities and their professional staffs. This process had not been done on any comprehensive level for several years. The plan will provide our constituents, Legislators and the Executive information about how and where NMEDD resources are allocated to accomplish our statutory directive to create new jobs and wealth throughout the state. It is intended to provide transparency, accountability and flexibility.

In April, 2013 Governor Susana Martinez signed the New Mexico Jobs Package into law. This tax reform bill will increase New Mexico's competitiveness when recruiting new industry to our state as well as reflect the state's image as a cost-effective place to do business. Business taxes affect an array of business decisions: job creation and retention, plant location, competitiveness, the transparency of the tax system and the long-term health of the state's economy.

An important new tool was added to the State Data Center this year, representing a substantial investment for NMEDD. SiteFinder is a searchable database of commercial real estate properties presented on a GIS platform with several map overlays of information. The tool is an essential component in recruiting new business to the state by offering this conveniently-located, valuable information to site selectors on our website. It is the first time the Department has offered a database of properties in more than a decade.

During FY13, NMEDD redesigned both its logo and website to aid in the recruitment of businesses to the state. The new logo aims to give the Department a fresh look and stand out among other economic development agencies. The new website includes new content and a new design.

In October 2012, Cabinet Secretary Barela appointed the Rural Economic Development Council (REDC), which existed in the agency as the Rural Development Response Council in the 1990s. The purpose of the Rural Economic Development Council is: to establish a formal platform to identify issues and challenges affecting rural New Mexico; advocate for sustainable growth in rural communities; support programs; and collaborate on policies which positively impact rural areas. REDC will provide training for rural community leaders and address training gaps which may exist within the economic development community throughout the state. REDC has met in locations around the state including Moriarty, Santa Fe, Truth or Consequences and Albuquerque. Several priorities thus far have been identified by the REDC:

- Training of city/county leadership (public officials) about the importance of economic development and training of economic development practitioners on an ongoing basis
- Infrastructure development
- Strategic use of capital outlay

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2013

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 FY13, 3,093 new jobs were created (1,440 rural and 1,653 urban) as a result of Economic Development Department efforts. Of this total, 553 jobs were created via 57 business expansions, 40 business expansions in urban communities and 17 in rural communities. The Job Training Incentive Program provided training for 844 persons in new jobs and reported a one-year retention rate of 72%.

The New Mexico Partnership (NMP), a not-for-profit entity, contracts with the Economic Development Department to market and recruit economic base jobs to New Mexico. The Partnership generated new momentum in FY13, filling the project pipeline with new, re-tooled business development and marketing activities. The latter half of the fiscal year showed a marked increase in potential new project leads after the passage of the 2013 tax reform package which will reduce the state's corporate income tax rate by 22 percent. Based on the identification of seven target industry sectors, NMP attended 12 trade shows throughout the year and ended the year having assisted in the creation of 284 jobs representing six new business relocations and two competitive business expansions

Descriptions of the Economic Development Division 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 Job Training Incentive Program's (JTIP) mission 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 eleventh year, the Certified Communities Initiative Program (CCI) continues to assist New Mexico communities build the local economic development capacity necessary to facilitate economic growth.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2013

Certified Communities Initiative Program (CCI) - Continued

- 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 includes 23 certified communities, with the majority of the original communities maintaining their certification.

MainStreet and Arts and Cultural District Programs

There are currently 23 MainStreet community affiliates and 6 Arts and Cultural districts. During FY13, MainStreet Districts saw \$22.7 million in private sector investments and 111 building rehabilitations. MainStreet programs logged 28,121 volunteers hours valued at \$495,492 (\$17.62/hour for NM Independent Sector Volunteers).

Some successful MainStreet projects from FY13 include:

- MainStreet conducted an extensive assessment of both the Lyceum Theater in Clovis and the Princess Theater in Tucumcari for the potential adaptive reuses of the theaters while preserving the intrinsic historic qualities and characteristics of the structures.
- Clayton MainStreet completed curb appeal projects on three Main Street buildings.
- The Town of Silver City utilized a MainStreet capital outlay award and municipal funds to purchase the historic Silco Theatre, completing the first phase of efforts to rehabilitate the building for use as a multi-purpose theater and cinema.
- The City of Roswell and MainStreet Roswell completed a Master Plan for their MainStreet District.
- The City of Portales and Portales MainStreet completed the Depot Focus Area Project, utilizing MainStreet capital outlay funds to conduct planning, design, rehabilitation cost estimates, a cultural resources survey, and an historic marker for the Portales Railroad Depot.
- The City of Lovington and Lovington MainStreet completed the Central Plaza Design and Planning projects for the redevelopment and historic preservation of Lovington's Central Plaza.
- The City of Raton and Raton MainStreet completed design and engineering work for the historic Raton Depot Area, using MainStreet capital outlay funds.
- The Village of Corrales and Corrales MainStreet completed the Pedestrian Pathways Project for design and engineering of pedestrian paths through Corrales' MainStreet District.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2013

MainStreet and Arts and Cultural District Programs - Continued

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)

The Arts and Cultural District (ACD) Program mission is to create district destinations that support local cultural and art entrepreneurs by increasing cultural and heritage tourism.

In FY13, the ACD developed a collaborative website: www.nmartsandculturaldistricts.org. The website promotes all six districts: Las Vegas, Taos, Los Alamos, Silver City, Albuquerque Downtown Action Team and Raton.

The six ACD districts filed a successful joint application to the New Mexico Tourism Department for a Cooperative Marketing Grant. They were awarded \$30,000 to conduct collaborative marketing and promotional efforts.

Las Vegas ACD hosted their first annual signature event, the Meadow City Music Festival, a two-day event with free musical entertainment at Plaza Park.

Silver City ACD hosted their first annual signature event, the Clay Festival, a celebration of clay, its history, and its cultural impact where locals and visitors can experience artist workshops and sales, lectures, demonstrations, films, archaeological tours and various social events.

The Town of Taos completed a Cultural Plan for the Taos Arts and Cultural District, utilizing MainStreet capital outlay funds, and the City of Albuquerque partnered with the Downtown Action Team to complete a Cultural Plan for the Central Arts District.

Office of International Trade

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 FY13

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2013

Office of International Trade - Continued

Part of the OIT's export growth can be attributed to the success in aiding in the completion of 31 international trade transactions, totaling approximately \$2.3 million in new revenue for New Mexico companies.

COMPANY	DESTINATION COUNTRY	AMOUNT OF SALE
Basic Dental Implants, Inc.	China and Taiwan	\$175,000
Basic Dental Implants, Inc.	Brazil	\$10,000
Ilumanacion Natural	Chile	\$50,000
Iluminacion Natural	Mexico	\$75,000
Permaworks, Inc.	Indonesia	\$50,000
Permaworks, Inc.	Australia	\$30,000
Bohannon-Huston, Inc.	Mexico	Pending
Private Label Select, Inc.	China	\$35,000
Private Label Select, Inc.	Korea	\$25,000
CIC Photonics, Inc.	Taiwan	\$35,000
CIC Photonics, Inc.	Brazil	\$32,000
Aromaland, Inc.	Taiwan	\$25,000
Defiant Technologies, Inc.	China	\$20,000
Defiant Technologies, Inc.	Taiwan	\$40,000
Intellicyt Corporation	Saudi Arabia	\$100,000
Intellicyt Corporation	United Arab Emirates	\$50,000
Basic Dental Implants	China and Taiwan	\$45,000
Marpac Industries	Hong Kong	\$50,000
Private Label Select	Hong Kong	\$25,000
Mountain Equipment Corporation	Thailand	\$60,000
Distar, Inc.	United Kingdom	\$15,000
CIC Photonics, Inc.	Chile	\$37,000
Old Wood	Kuwait	\$816,000
Basic Dental Implants, Inc.	Canada	\$50,000
Marpac Industries	United Arab Emirates	\$27,500
Private Label Select, Inc.	United Kingdom	\$50,000
Ideum Corporation	Netherlands	\$45,000
Sisneros Brothers Manufacturing	Mexico	\$100,000
RIETech Global	Mexico	Pending
Aromaland, Inc.	Taiwan	\$37,000
Satcom	Israel	\$200,000

The New Mexico Economic Development Department, Office of International Trade applied for the grant and was subsequently awarded \$85,000 for the first year and \$215,000 for the second year of the STEP program to assist New Mexico companies with booth fees and Gold Key Services to participate in international trade missions, trade shows and conferences.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2013

International Export Seminars/Workshops

The OIT works with the NM Border Authority to improve infrastructure at our ports of entry and along Mexican borders, 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).

The Office of Business Advocacy Mission:

- 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

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2013

Office of Business Advocacy - Continued

The Office of Business Advocacy (OBA) successfully assisted more than 200 businesses in breaking through regulatory and licensing hurdles. These efforts led to the creation and retention of more than 1,000 jobs. The OBA offers a unique service for businesses looking for help navigating through regulatory and permitting issues at both state and federal levels. OBA staff works as an intermediary between the business and regulatory agency on a case-by-case basis to resolve various issues. Since January 2011, the OBA worked 221 cases across the state, becoming a go-to resource for businesses. OBA's ability to research, track down answers and identify solutions has proven invaluable to small businesses. The issues OBA works on vary from how to appeal a federal highway sign ordinance to researching and creating legislative reform to aid in streamlining permitting processes.

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. Its purpose is to market the state to this industry, service the productions and promote jobs for New Mexicans. The NMFO offers many resources to producers, film crew and local filmmakers and coordinates 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2013

Production Services - Continued

In FY13, 53 projects with projects filmed in New Mexico and applied for the Film Tax Credit creating \$213.7M 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 these industries by meeting with digital technicians, companies and related vendors to develop and market available incentives.

In FY13, the New Mexico Film Office created an initial inventory of New Mexico Digital and Emerging Media companies. The information will assist in the development of strategies to access the benefits of these technologies for the New Mexico economy. This initiative will therefore be a priority in the upcoming fiscal years.

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 FY13, 10 companies participated in the Film Crew Advancement Program and four workshops were conducted through the Pre-employment Training Program.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2013

Local Outreach

Town Halls were coordinated providing regional forums, free and open to the public, to discuss industry-related inquiries. They were held in Carlsbad, Clovis and Taos. NMFO also participated in the annual Film & Media Day during the 2013 legislative session. NMFO began sending out a published newsletter more than once quarterly. Also in FY13, NMFO's "filmnewmexico" Facebook page exceeded 6000 "likes."

- NMFO presented to the Governor's Council on Film & Media Industries, which will assist NMFO with their educational outreach initiatives.
- NMFO continues to support and grow the Statewide Film Liaison Network. Communities and tribes designate individuals to assist and prepare their area for a variety of industry activities. In July, the annual meeting of liaisons took place at Los Luceros, where eighteen liaisons attended.
- NMFO held the first annual New Mexico Film & Media Industry Conference in Albuquerque this past May. Local filmmakers, crew, producers, and vendors attended and engaged in discussions with renowned industry panelists.
- In the fall, the NM Filmmakers Program began with the Annual Showcase, screening local filmmakers' projects across the state in Albuquerque, Grants, Las Cruces, Portales, Santa Fe and Taos. Next, the NM Filmmakers Experience launched in February with a panel and screening, followed by three additional panels and screenings that wrapped up in June.

Film Tourism

The New Mexico Film Office and the Cabinet Secretary of Tourism met with major studios in Los Angeles while collaborating to develop a New Mexico "True Adventure" for the release of *The Lone Ranger*. The official Disney international press junket for the film took place in Santa Fe in June. Downloadable Film Tourism maps also became available on the Tourism department's website. NMFO will continue to assist the Tourism Department with future film-related "True Adventures".

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

STATEMENT OF NET POSITION

June 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Investment in State General Fund Investment Pool	\$ 19,423,188
Due from other State Agencies	2,308,155
Other	811
Capital assets, net	<u>67,834</u>
 Total assets	 <u><u>\$ 21,799,988</u></u>
LIABILITIES	
Accounts payable	\$ 3,566,371
Accrued payroll	62,844
Other Liabilities	17,484
Due to State General Fund	1,654,105
Compensated absences payable:	
Expected to be paid within one year	<u>164,878</u>
 Total liabilities	 5,465,682
NET POSITION	
Net investment in capital assets	67,834
Restricted	16,707,374
Unrestricted	<u>(440,902)</u>
 Total net position	 <u>16,334,306</u>
 Total liabilities and net position	 <u><u>\$ 21,799,988</u></u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico Economic Development Department

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES					
Economic Development	\$ 2,739,566	\$ 35,823	\$ -	\$ -	\$ (2,703,743)
Film	719,316	-	-	-	(719,316)
Mexican Affairs	66,096	-	-	-	(66,096)
Program Support	2,426,251	-	-	-	(2,426,251)
Technology Commercialization	19,679	-	-	-	(19,679)
Other Initiatives	7,083,254	-	-	-	(7,083,254)
TOTAL ACTIVITIES	\$ 13,054,162	\$ 35,823	\$ -	\$ -	(13,018,339)
GENERAL REVENUES (EXPENSES)					
Other revenue:					
State General Fund appropriations					13,297,205
Severance Tax Bond Proceeds					487,930
Transfers in - other					50,388
Transfers out - Reversions to State General Fund FY13					(554,292)
Total general revenues and transfers					13,281,231
CHANGE IN NET ASSETS					262,892
NET ASSETS, BEGINNING, BEFORE RESTATEMENT					13,365,224
PRIOR PERIOD RESTATEMENT					2,706,190
NET ASSETS, BEGINNING, AFTER RESTATEMENT					16,071,414
NET ASSETS, ENDING					\$ 16,334,306

The accompanying notes are an integral part of this financial statement.

State of New Mexico Economic Development Department

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	18900 & 38400	63800	Major 02800 Capital Projects Fund
	General Fund	JTIP Fund	Fund
ASSETS			
Investment in State General Fund			
Investment Pool	\$ 2,103,989	\$ 17,227,295	\$ 8,553
Due from other State Agencies	-	-	28,300
Due from other funds	-	859	-
Other	811	-	-
	<u>811</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 2,104,800</u>	<u>\$ 17,228,154</u>	<u>\$ 36,853</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 409,670	\$ 586,881	\$ 14,800
Accrued payroll	62,844	-	-
Other liabilities	234	17,250	-
Deferred revenue	-	-	-
Due to other funds	-	-	-
Due to State General Fund	1,632,052	-	22,053
	<u>1,632,052</u>	<u>-</u>	<u>22,053</u>
Total liabilities	<u>2,104,800</u>	<u>604,131</u>	<u>36,853</u>
FUND BALANCES			
Restricted	-	16,624,023	-
Assigned	-	-	-
Unassigned	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>16,624,023</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 2,104,800</u>	<u>\$ 17,228,154</u>	<u>\$ 36,853</u>

The accompanying notes are an integral part of this financial statement.

Funds

89200 STB Capital Projects Fund	02300 Revolving Loan Community Development Fund	20530 ISO 9000 Fund	Total
\$ -	\$ 81,068	\$ 2,283	\$ 19,423,188
2,279,855	-	-	2,308,155
-	-	-	859
-	-	-	811
<u>\$ 2,279,855</u>	<u>\$ 81,068</u>	<u>\$ 2,283</u>	<u>\$ 21,733,013</u>
\$ 2,555,020	\$ -	\$ -	\$ 3,566,371
-	-	-	62,844
-	-	-	17,484
-	-	-	-
859	-	-	859
-	-	-	1,654,105
<u>2,555,879</u>	<u>-</u>	<u>-</u>	<u>5,301,663</u>
-	81,068	2,283	16,707,374
-	-	-	-
<u>(276,024)</u>	<u>-</u>	<u>-</u>	<u>(276,024)</u>
<u>(276,024)</u>	<u>81,068</u>	<u>2,283</u>	<u>16,431,350</u>
<u>\$ 2,279,855</u>	<u>\$ 81,068</u>	<u>\$ 2,283</u>	<u>\$ 21,733,013</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico Economic Development Department

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

June 30, 2013

Total Fund Balance - Governmental Funds
(Governmental Funds Balance Sheet) \$ 16,431,350

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

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

Capital assets total acquisition value	133,322
Total accumulated depreciation	<u>(65,488)</u>
Total capital assets, net	67,834

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

Compensated absences payable	<u>(164,878)</u>
Total long-term liabilities	<u>(164,878)</u>

Net position of governmental activities (Statement of Net Position) \$ 16,334,306

The accompanying notes are an integral part of this financial statement.

State of New Mexico Economic Development Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

Year Ended June 30, 2013

	18900 & 38400	63800	Major 02800 Capital Projects Fund
	General Fund	JTIP Fund	Fund
REVENUES			
Other revenue	\$ 36,299	\$ -	\$ (889)
Total revenues	36,299	-	(889)
EXPENDITURES			
Current:			
Personal services and benefits	3,238,119	-	-
Contractual services	2,036,945	51,665	-
Other	738,940	2,912,753	219,106
Capital outlay	8,364	-	-
Total expenditures	6,022,368	2,964,418	219,106
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,986,069)	(2,964,418)	(219,995)
OTHER FINANCING SOURCES (USES)			
State General Fund appropriations	7,297,205	6,000,000	-
Transfers out - Reversions to State General Fund FY13	(554,292)	-	-
Severance Tax Bond Proceeds	-	-	542,611
Transfers in (out) - Other	-	1,950,388	-
Total other financing sources (uses)	6,742,913	7,950,388	542,611
NET CHANGE IN FUND BALANCES	756,844	4,985,970	322,616
BEGINNING FUND BALANCE, before restatement	(2,521)	11,638,053	(1,602,822)
PRIOR PERIOD RESTATEMENT	(754,323)	-	1,280,206
BEGINNING FUND BALANCE, after restatement	(756,844)	11,638,053	(322,616)
ENDING FUND BALANCE	\$ -	\$ 16,624,023	\$ -

The accompanying notes are an integral part of this financial statement.

Funds			
89200 STB Capital Projects Fund	02300 Revolving Loan Community Development Fund	20530 ISO 9000 Fund	Total
\$ -	\$ -	\$ 413	\$ 35,823
-	-	413	35,823
-	-	-	3,238,119
-	-	-	2,088,610
3,822,273	-	-	7,693,072
-	-	-	8,364
<u>3,822,273</u>	<u>-</u>	<u>-</u>	<u>13,028,165</u>
(3,822,273)	-	413	(12,992,342)
-	-	-	13,297,205
-	-	-	(554,292)
4,335,445	-	-	4,878,056
-	(1,900,000)	-	50,388
<u>4,335,445</u>	<u>(1,900,000)</u>	<u>-</u>	<u>17,671,357</u>
513,172	(1,900,000)	413	4,679,015
(3,006,337)	1,981,068	1,870	9,009,311
<u>2,217,141</u>	<u>-</u>	<u>-</u>	<u>2,743,024</u>
<u>(789,196)</u>	<u>1,981,068</u>	<u>1,870</u>	<u>11,752,335</u>
<u>\$ (276,024)</u>	<u>\$ 81,068</u>	<u>\$ 2,283</u>	<u>\$ 16,431,350</u>

The accompanying notes are an integral part of this financial statement.

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, 2013

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ 4,679,015
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.	(4,390,115)
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	8,364
Depreciation expense	(21,540)
Change in compensated absence balance not recorded in governmental funds	<u>(12,832)</u>
Change in net position of governmental activities (Statement of Activities)	<u>\$ 262,892</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico Economic Development Department

**STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
(NON-GAAP BUDGETARY BASIS)
BUDGET AND ACTUAL (BUDGETARY BASIS)**

Year Ended June 30, 2013

GENERAL FUND (18900)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
	P-512 ECONOMIC DEVELOPMENT			
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General Fund	2,906,300	2,906,300	2,906,300	-
Other State funds	-	-	800,005	800,005
Inter-agency transfers	-	-	-	-
Total revenues	\$ 2,906,300	\$ 2,906,300	\$ 3,706,305	\$ 800,005
EXPENDITURES				
Personal services and benefits	\$ 1,691,300	\$ 1,631,300	\$ 1,480,344	\$ 150,956
Contractual services	1,057,400	1,077,400	1,075,879	1,521
Other costs	157,600	197,600	183,343	14,257
Other financing uses	-	-	-	-
Total expenditures	\$ 2,906,300	\$ 2,906,300	\$ 2,739,566	\$ 166,734
P-514 FILM				
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General Fund	874,800	874,800	874,800	-
Other State funds	-	-	-	-
Inter-agency transfers	-	-	-	-
Total revenues	\$ 874,800	\$ 874,800	\$ 874,800	\$ -
EXPENDITURES				
Personal services and benefits	\$ 655,200	\$ 577,200	\$ 447,028	\$ 130,172
Contractual services	97,800	155,800	137,081	18,719
Other costs	121,800	141,800	135,207	6,593
Other financing uses	-	-	-	-
Total expenditures	\$ 874,800	\$ 874,800	\$ 719,316	\$ 155,484

The accompanying notes are an integral part of this financial statement.

State of New Mexico Economic Development Department

**STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
(NON-GAAP BUDGETARY BASIS)
BUDGET AND ACTUAL (BUDGETARY BASIS) - CONTINUED**

Year Ended June 30, 2013

GENERAL FUND (18900) - CONTINUED

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
	P-515 MEXICAN AFFAIRS			
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General Fund	88,300	88,300	88,300	-
Other State funds	-	-	-	-
Inter-agency transfers	-	-	-	-
Total revenues	\$ 88,300	\$ 88,300	\$ 88,300	\$ -
EXPENDITURES				
Personal services and benefits	\$ -	\$ -	\$ -	\$ -
Contractual services	51,800	21,800	1,369	20,431
Other costs	36,500	66,500	64,727	1,773
Other financing uses	-	-	-	-
Total expenditures	\$ 88,300	\$ 88,300	\$ 66,096	\$ 22,204
P-526 PROGRAM SUPPORT				
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General Fund	2,607,800	2,607,800	2,607,800	-
Other State funds	-	-	-	-
Inter-agency transfers	-	-	-	-
Total revenues	\$ 2,607,800	\$ 2,607,800	\$ 2,607,800	\$ -
EXPENDITURES				
Personal services and benefits	\$ 1,512,600	\$ 1,440,544	\$ 1,310,749	\$ 129,795
Contractual services	872,000	852,000	804,269	47,731
Other costs	223,200	315,246	320,633	(5,387)
Other financing uses	-	-	-	-
Total expenditures	\$ 2,607,800	\$ 2,607,790	\$ 2,435,651	\$ 172,139

The accompanying notes are an integral part of this financial statement.

State of New Mexico Economic Development Department

**STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
(NON-GAAP BUDGETARY BASIS)
BUDGET AND ACTUAL (BUDGETARY BASIS) - CONTINUED**

Year Ended June 30, 2013

	GENERAL FUND (18900) - CONTINUED			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
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	\$ -	\$ -	\$ -	\$ -
Contractual services	6,000	-	-	-
Other costs	14,000	20,000	19,679	321
Other financing uses	-	-	-	-
Total expenditures	\$ 20,000	\$ 20,000	\$ 19,679	\$ 321
				GENERAL FUND (18900)
				Actual Amounts (Budgetary Basis)
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)				\$ 1,274,837
GAAP BASIS RECONCILIATION				
Reversions - general fund				(554,292)
Reversions - capital outlay				(41,580)
Prior year bills paid with current year funds				72,750
Current year bills paid with funds from next year				5,129
NET CHANGE IN FUND BALANCE				\$ 756,844

The accompanying notes are an integral part of this financial statement.

State of New Mexico Economic Development Department

**STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
(NON-GAAP BUDGETARY BASIS)
BUDGET AND ACTUAL (BUDGETARY BASIS) - CONTINUED**

Year Ended June 30, 2013

	JOB TRAINING INCENTIVE PROGRAM (JTIP) FUND (63800)			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General Fund	6,000,000	6,000,000	6,000,000	-
Other State funds	-	-	50,388	50,388
Other financing sources	1,900,000	1,900,000	1,900,000	-
Total revenues	\$ 7,900,000	\$ 7,900,000	7,950,388	\$ 50,388
Budgeted fund balance				
EXPENDITURES				
Current				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contractual services	-	-	-	-
Other financing uses	7,900,000	7,900,000	2,964,418	4,935,582
Total expenditures	\$ 7,900,000	\$ 7,900,000	2,964,418	\$ 4,935,582
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)			4,985,970	
TIMING DIFFERENCE DUE TO ACCOUNTS PAYABLE			-	
NET CHANGE IN FUND BALANCE GAAP BASIS			\$ 4,985,970	

The accompanying notes are an integral part of this financial statement.

State of New Mexico Economic Development Department

**STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
(NON-GAAP BUDGETARY BASIS)
BUDGET AND ACTUAL (BUDGETARY BASIS) - CONTINUED**

Year Ended June 30, 2013

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

The accompanying notes are an integral part of this financial statement.

State of New Mexico Economic Development Department

**STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
(NON-GAAP BUDGETARY BASIS)
BUDGET AND ACTUAL (BUDGETARY BASIS) - CONTINUED**

Year Ended June 30, 2013

	ISO 9000 (20530)			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General Fund	-	-	-	-
Other State funds	-	-	-	-
Interest	-	-	413	413
Total revenues	\$ -	\$ -	413	\$ 413
EXPENDITURES				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contractual services	-	-	-	-
Other costs	-	-	-	-
Other financing uses	-	-	-	-
Total expenditures	\$ -	\$ -	-	\$ -
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)			413	
NET CHANGE IN FUND BALANCE			\$ 413	

This fund was not budgeted due to expected minimal activity.

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE A - 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 B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Financial Reporting Entity

The financial statements for the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

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.

The Department is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, but would be included in a state-wide Comprehensive Annual Financial Report (CAFR). Even though the Department Secretary is appointed by the Governor, the Department Secretary has decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

In accordance with the criteria set forth in GASB 39 and GASB 61 for determining component units, the Department does not have any component units.

3. 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 position, both the governmental and business-type activities are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The net position of the Department consist of assets, deferred outflows of resources, liabilities and deferred inflows of resources, the residual is net position. There were no deferred outflows of resources or deferred inflows of resources for the year ending June 30, 2013. See Note S for more information on deferred outflows and inflows of resources. Funds fiduciary in nature are excluded from the government-wide statements and fund statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Government-Wide and Fund Financial Statements - Continued

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.

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 governmental-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 position on the government wide financial statements. This negative balance is attributable to accrual of compensated absences liability on the government wide statement of net position.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. 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 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 FY12, the Department additionally classified the ISO 9000 Fund (SHARE Fund 20530) as major.

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation – Fund Accounting - Continued

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). All loans were repaid prior to June 30, 2013.

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 FY12 to track capital projects funded by Severance Tax Bonds. Unspent funds will revert upon individual project completion (SHARE Fund 89200).

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation – Fund Accounting - Continued

Capital Projects Funds - Continued

The Capital Projects Funds have a deficit fund balance of \$276,029 as of June 30, 2013. The deficit is attributable to the Department reimbursing capital projects that should be funded through severance tax bonds out of the fund balance prior to fiscal year 2012, and not compensating the fund balance by drawing on the applicable severance tax bonds in a timely manner.

5. 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.

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. 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, 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.

For the year ended June 30, 2013, the Department overspent its final budget amount for personal services and benefits (object) by \$5,387.

7. 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 FY13.

8. 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.

9. 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Reverting Funds

Reverting funds are all funds that are not identified by law as non-reverting.

11. 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 stale 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, 2013 should be paid on or before September 30, 2013. Reversions are not budgeted for.

12. Revenues, Expenditures and Expenses

The government-wide 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.

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:

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 position.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. 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.

14. 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	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 FY13.

15. Fund Balances and Net Position

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Fund Balances and Net Position - Continued

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.

16. 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.

17. Subsequent Events

Management evaluated subsequent events through December 13, 2013, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2013, but prior to December 13, 2013, that provided additional evidence about conditions that existed at June 30, 2013 have been recognized in the financial statements for the year ended June 30, 2013. Events or transactions that provided evidence about conditions that did not exist at June 30, 2013, 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, 2013.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE C - STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies in the Pool.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a "business unit by fund" level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) in July 2006. This report, entitled "Current State Diagnostic of Cash Control," also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

Management in FY12 recorded a loss contingency of \$101.7 million in the General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool, that estimate is still current. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE D - 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.

1. 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.

2. 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, 2013.

The Department has deposits, as defined in the Schedule of Individual Deposit Accounts, of \$19,423,188 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 59.

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 60.

NOTE E - 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:

<u>SHARE Fund</u>	<u>Fund Type</u>	<u>Due To</u>	<u>Due From</u>
63800	Special Revenue		\$ 859
89200	Capital Projects	\$ 859	
	Total	<u>\$ 859</u>	<u>\$ 859</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE F - DUE TO/FROM OTHER STATE AGENCIES

NMEDD Fund	Purpose	Affiliate Name	Affiliate Fund	Due To	Due From
02800	To fund Capital Projects through Severance Tax Bonds	Dept. of Finance & Administration	81500	\$ -	\$ 28,300
89200	To fund Capital Projects through Severance Tax Bonds	Dept. of Finance & Administration	81500	-	2,279,855
Total				<u>\$ -</u>	<u>\$ 2,308,155</u>

NOTE G - DUE TO/FROM STATE GENERAL FUND

NMEDD Fund	Purpose	Affiliate Name	Affiliate Fund	Due To	Due From
02800	Reversion of MainStreet Central Business District	Dept. of Finance & Administration	39401	\$ 11	\$ -
02800	Reversion of MainStreet infrastructure projects statewide	Dept. of Finance & Administration	39401	1,849	-
89200	Reversion infrastructure improvements - LEDA	Dept. of Finance & Administration	39401	39,719	-
18900	Reversion of unreserved. Undesignated balance in the operation fund at 06/30/2013	Dept. of Finance & Administration	39401	554,292	-
18900	Reversion of unreserved. Undesignated balance in the operation fund at 06/30/2011	Dept. of Finance & Administration	39401	1,992	-
18900	Reversion of unreserved. Undesignated balance in the operation fund at 06/30/2010	Dept. of Finance & Administration	39401	1,056,242	-
Total				<u>\$ 1,654,105</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE H - 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 NMSA. 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.

NOTE I - CAPITAL ASSETS

	Balance June 30, 2012	Prior Period Restatement	Balance as Restated June 30, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets:						
Equipment and machinery	\$ 174,854	\$ (75,968)	\$ 98,886	\$ 8,364	\$ -	\$ 107,250
Furniture and fixtures	21,131	(21,131)	-	-	-	-
Data processing software	513,597	(513,597)	-	-	-	-
Building and structures	43,611	(17,539)	26,072	-	-	26,072
Total capital assets	753,193	(628,235)	124,958	8,364	-	133,322
Accumulated depreciation:						
Equipment and machinery	135,100	(92,842)	42,258	19,777	-	62,035
Furniture and fixtures	19,394	(19,394)	-	-	-	-
Data processing software	466,624	(466,624)	-	-	-	-
Buildings and structures	14,231	(12,541)	1,690	1,763	-	3,453
Total accumulated depreciation	635,349	(591,401)	43,948	21,540	-	65,488
Net capital assets	\$ 117,844	\$ (36,834)	\$ 81,010	\$ (13,176)	\$ -	\$ 67,834

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE I - CAPITAL ASSETS - CONTINUED

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>12,698</u>
 Total	 \$	 <u>21,540</u>

NOTE J - 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.

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

	Balance June 30, 2012	Increase	Decrease	Balance June 30, 2013	Amounts Due Within One Year
Compensated absences	<u>\$ 152,046</u>	<u>\$ 153,161</u>	<u>\$ (140,329)</u>	<u>\$ 164,878</u>	<u>\$ 164,878</u>

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

There was no short-term debt activity in FY13.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE K - REVERSIONS

Current year reversions to the State General Fund as of June 30, 2013 were as follows:

Appropriation Year	Fund Type	SHARE System Fund	Reversion
Laws of 2013	General Fund	18900	\$ 554,292
Laws of 2013	Capital Outlay	02800	1,861
Laws of 2013	Capital Outlay	89200	39,719

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 \$1,654,105, (\$1,077,760 of prior year unsettled reversions and \$554,292 of the current year reverting balance) is payable at June 30, 2013 and due by September 30, 2013. 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 2014.

NOTE L - PENSION PLAN - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

1. Plan Description

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

2. 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, 2013, 2012, and 2011 were \$353,596, \$308,169, and \$464,907, respectively, which equal the amount of the required contributions for each fiscal year.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE M - POST EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN

1. 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.

2. 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, 2013, the statute required each participating employer to contribute 2.000% of each participating employee's annual salary; each participating employee was required to contribute 1.000% of their salary. In the fiscal year ending June 30, 2013, the contribution rates for employees and employers will rise as follows:

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

**NOTE M - POST EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN
- CONTINUED**

2. Funding Policy - Continued

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

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY14	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, 2013, 2012, and 2011 were \$46,894, \$41,937, and \$50,847, respectively, which equal the required contributions for each year.

NOTE N - 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 capital assets. Lease expenditures for the year ended June 30, 2013 amounted to \$177,419.

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, 2013.

2014	\$ 64,927
2015	62,290
2016	12,431
2017	2,017
2018	2,018
2019 and thereafter	-
	\$ 143,683

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE O - 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 P - OPERATING TRANSFERS

EDD SHARE Funds	Affiliate Agency	Affiliate SHARE Agency	Transfers In	Transfers Out
18900	Dept. of Finance & Administration	34100	\$ 50,388	\$ -

During 2013, a \$1,900,000 transfer from Fund 02300 to Fund 63800 was approved by legislation.

NOTE Q - 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, 2013, 2012, and 2011, there were no settlements that exceeded insurance coverage.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE R - 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, 2013 follows:

	<u>General Fund</u>	<u>Major Special Revenue Funds</u>	<u>Major Capital Projects Funds</u>
Fund Balances:			
Restricted for:			
In-Plant Training (Section 21-19-11 NMSA 1978)	\$ -	\$ 16,624,023	\$ -
Revolving Loan Community Development (Laws of 1983, Ch. 299)	-	81,068	-
Assigned:			
ISO 9000	-	2,283	-
Unassigned	-	-	(276,024)
	<u>\$ -</u>	<u>\$ 16,707,374</u>	<u>\$ (276,024)</u>

The amount of net position restricted by enabling legislation is \$16,705,091 as reported above. The Department expects to eliminate the negative fund balance in major capital funds through future funding or fund transfer.

NOTE S - NEW ACCOUNTING STANDARDS

GASB 63

The Department implemented Governmental Accounting Standards Board Statement No. 63 "Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position" (GASB 63) for the year ending June 30, 2013. GASB 63 introduces a fundamental change to the reporting of elements that make up a statement of financial position.

Deferred outflows of resources and deferred inflows of resources are now included in the elements that make up a statement of financial position and GASB 63 introduces the term **net position** for reporting the residual of all elements in a statement of net position. The Statement of Net Position of the Department at June 30, 2013 conforms to the presentation requirements of GASB 63. There were no deferred outflows or inflows to separately report at June 30, 2013.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE S - NEW ACCOUNTING STANDARDS - CONTINUED

GASB 65

Governmental Accounting Standard Board Statement No. 65 "Items Previously Reported as Assets and Liabilities" (GASB 65) changes the classification of various financial statement balance sheet items including several more common type transactions from presentation as assets and liabilities to deferred outflows and inflows of resources. GASB 65 is applicable for years beginning after December 15, 2012. The Department will implement this standard next year. Bond issuance costs will be treated differently for fiscal year 2014 under this standard.

GASB 68

Governmental Accounting Standard Board Statement No. 68 "Accounting and Financial Reporting for Pensions" (GASB 68) revises existing guidance for governments that provide their employees with pension benefits. A principal change is the requirement to record a government's pro rata share of unfunded actuarial accrued liability (UAAL) on its financial statements for multiemployer cost sharing plan. The Department is a participating member of the Public Employees Retirement Association (PERA), a multiemployer cost sharing plan. Information to implement this standard will be developed by PERA and the State of New Mexico. The implementation date for GASB 68 is fiscal year 2015. The current status of the unfunded liability for PERA is \$6.18 billion based on the most recently issued audited financial statement at June 30, 2012. Legislation was passed in the last year changing PERA's plan benefits design and contribution requirements to fully fund UAAL within 30 years.

NOTE T - PRIOR PERIOD RESTATEMENT

The severance tax bonds proceeds for several cost reimbursement billings were improperly reflected as deferred revenue by the Department as of June 30, 2013. The deferred revenues were earned revenue in FY12 because the \$2,743,024 was collected during July 2012, which did not extend past 60 days from the fiscal year end as originally understood (see Finding 13-1).

Prior period restatements of \$754,323 resulted in transfers between the General Fund and both Capital Outlay Funds at June 30, 2012 as part of the above restatement by increasing one Capital Outlay Fund by \$603,531 and the other Capital Outlay Fund by \$150,792 and decreasing the General Fund to \$0.

In addition, capital assets with a cost of \$628,235 and accumulated depreciation of \$591,401 were removed because the items could not be identified and substantiated as Department owned assets prior to June 30, 2012. Management reviewed past years and could not determine if these assets actually existed. The net investment in capital assets prior period restatement was \$36,834.

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, 2013

	CAPITAL PROJECTS FUND (02800)			
	Life to Date Budgeted Amount	FY 2013 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	542,611	10,410,964	(839,036)
Total revenues	\$ 13,500,000	542,611	\$ 12,660,964	\$ (839,036)
EXPENDITURES				
Personal services and benefits	\$ -	-	\$ -	\$ -
Contractual services	-	-	-	-
Other costs	13,500,000	219,106	12,660,964	(839,036)
Other financing uses	-	-	-	-
Total expenditures	\$ 13,500,000	219,106	\$ 12,660,964	\$ (839,036)
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)		323,505		
OTHER		889		
NET CHANGE IN FUND BALANCE		\$ 322,616		

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, 2013

	STB CAPITAL PROJECTS FUND (89200)			
	Life to Date Budgeted Amount	FY 2013 Amount Budgetary Basis	Life to Date Actual Amount (Budgetary Basis)	Variance Over Under
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
Severance Tax Bonds	7,500,000	4,335,445	7,318,350	(181,650)
Interest	-	-	-	-
Total revenues	<u>\$ 7,500,000</u>	<u>4,335,445</u>	<u>\$ 7,318,350</u>	<u>\$ (181,650)</u>
Budgeted fund balance	<u>\$ -</u>	-		
EXPENDITURES				
Personal services and benefits	\$ -	-	-	\$ -
Contractual services	-	-	-	-
Other costs	7,500,000	3,822,273	7,318,350	(181,650)
Other financing uses	-	-	-	-
Total expenditures	<u>\$ 7,500,000</u>	<u>3,822,273</u>	<u>\$ 7,318,350</u>	<u>\$ (181,650)</u>
EXCESS OF REVENUE UNDER EXPENDITURES AND OTHER FINANCING SOURCES (USES)		<u>513,172</u>		
NET CHANGE IN FUND BALANCE		<u>\$ 513,172</u>		

State of New Mexico Economic Development Department

**MULTIPLE-YEAR CAPITAL PROJECTS FUNDED BY SPECIAL
AND SEVERANCE TAX CAPITAL OUTLAY APPROPRIATIONS FROM THE STATE**

Year Ended June 30, 2013

Project Description	Expiration	Amount Appropriated	Current Year Expenditures	Current Year Reversions	Prior Year Incurred Balance	Balance as of June 30, 2013
<u>Special Capital Outlay Appropriations</u>						
Media Production Education and Training	6/30/2012 *	\$ 250,000	\$ -	\$ -	\$ 191,772	\$ 58,228
Albuquerque Eclipse Aviation	6/30/2012 *	2,000,000	-	-	1,980,000	20,000
Total Capital Appropriations		2,250,000	-	-	2,171,772	78,228
<u>Severance Tax Bond Proceeds</u>						
Economic Development Grants	6/30/2013	3,500,000	-	-	3,500,000	-
Mainstreet Central Business	6/30/2013	1,250,000	-	11	1,249,989	-
Mainstreet Infrastructure projects statewide	6/30/2013	1,000,000	219,106	1,850	779,044	-
Tucumcari Downtown Infrastructure	6/30/2012	500,000	-	-	500,000	-
X-Prize Cup Spaceport Show Infr	6/30/2011	4,000,000	-	-	4,000,000	-
Economic Development Mainstreet Projects	6/30/2016	1,000,000	244,492	-	-	755,508
Infrastructure for New and Existing Businesses - LEDA	6/30/2014	4,500,000	1,353,590	39,719	3,106,691	-
Infrastructure for New and Existing Businesses - LEDA	6/30/2014	3,000,000	2,224,191	-	775,809	-
Total Severance Tax Bonds		18,750,000	4,041,379	41,580	13,911,533	755,508
Total Capital Projects		\$ 21,000,000	\$ 4,041,379	\$ 41,580	\$ 16,083,305	\$ 833,736

* The Department anticipates receiving extensions to spend the remaining balances by June 30, 2014.

State of New Mexico Economic Development Department

SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS

Year Ended June 30, 2013

Fund Name	Fund Number	Fund Type	Depository	Unadjusted Balances	Adjustments/ Reconciling Items	Reconciled Balance per Books
Cash with State General Fund Investment Pool (with SHARE fund numbers):						
General Fund	18900	Operating	State Treasury	\$ 2,806,671	\$ -	\$ 2,806,671
In-Plant Training Fund	63800	Special revenue	State Treasury	17,228,154	(746,629)	16,481,525
Revolving Loan Community Development	02300	Special revenue	State Treasury	81,068	-	81,068
Technology Enterprise Fund	38400 *	Special revenue	State Treasury	51,641	-	51,641
ISO 9000	20530	Special revenue	State Treasury	2,283	-	2,283
Capital Projects Fund	89200	Capital project	State Treasury	(151,651)	151,651	-
Capital Projects Fund	02800	Capital project	State Treasury	(594,978)	594,978	-
Total Governmental Cash with State General Fund				<u>\$ 19,423,188</u>	<u>\$ -</u>	<u>\$ 19,423,188</u>

* Reported in General Fund 18900

State of New Mexico Economic Development Department

SCHEDULE OF PLEDGED COLLATERAL

June 30, 2013

	Accounts at State General Investment Fund	Total
Total amount of deposit	\$ 19,423,188	\$ 19,423,188
Less FDIC	-	-
Total uninsured public money	19,423,188	19,423,188
50% collateral	9,711,594	9,711,594
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

MEMORANDA OF UNDERSTANDING

Year Ended June 30, 2013

Responsible Party	Description	Term
PCD/GSD	MOU between the Department, and the Property Control 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 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
Pegasus Global, LLC	MOU between Pegasus Global and the Department to develop an essential infrastructure project.	2/2/2010 - project completion
City of Espanola, NM	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
Albuquerque Downtown Action Team	MOU between EDD and ABQ Downtown Action Team for revitalization.	Unavailable
Albuquerque Nob Hill	MOU between EDD and Nob Hill MainStreet for revitalization.	Estimated 2014
Artesia	MOU between EDD and Artesia MainStreet for revitalization.	Unavailable
Belen	MOU between EDD and Belen MainStreet for revitalization.	Estimated 2015
Carlsbad	MOU between EDD and Carlsbad MainStreet for revitalization.	Estimated 2014
Clayton	MOU between EDD and Clayton MainStreet for revitalization.	Estimated 2014

SCHEDULE 4

Total Amount of Project	Amount Applicable to EDD	Amount Department Contributed During FY13	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.
\$ 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
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
\$ -	\$ -	\$ -	\$ -	Albuquerque Downtown Action Team	Albuquerque Downtown Action Team
\$ 48,000	\$ -	\$ -	\$ -	Albuquerque Nob Hill	Albuquerque Nob Hill
\$ -	\$ -	\$ -	\$ -	City of Artesia	Artesia
\$ 50,000	\$ -	\$ -	\$ -	City of Belen	Belen
\$ 80,000	\$ -	\$ -	\$ -	City of Carlsbad	Carlsbad
\$ 150,000	\$ -	\$ -	\$ 103,753	City of Clayton	Clayton

State of New Mexico Economic Development Department

MEMORANDA OF UNDERSTANDING - CONTINUED

Year Ended June 30, 2013

Responsible Party	Description	Term
Clovis	MOU between EDD and Clovis MainStreet for revitalization.	Estimated 2015
Corrales	MOU between EDD and Corrales MainStreet for revitalization.	Unavailable
Deming	MOU between EDD and Deming MainStreet for revitalization.	Estimated 2014
Farmington	MOU between EDD and Farmington MainStreet for revitalization.	Unavailable
Grants	MOU between EDD and Grants MainStreet for revitalization.	Unavailable
Las Cruces	MOU between EDD and Las Cruces MainStreet for revitalization.	Estimated 2014
Las Vegas	MOU between EDD and Las Vegas MainStreet for revitalization.	Estimated 2014
Las Vegas	MOU between EDD and Las Vegas MainStreet for revitalization.	Estimated 2015
Los Alamos	MOU between EDD and Los Alamos MainStreet for revitalization.	Unavailable
Lovington	MOU between EDD and Lovington MainStreet for revitalization.	Unavailable
Portales	MOU between EDD and Portales MainStreet for revitalization.	Unavailable
Raton	MOU between EDD and Raton MainStreet for revitalization.	Estimated 2014
Roswell	MOU between EDD and Roswell MainStreet for revitalization.	Estimated 2015
Silver City	MOU between EDD and Silver City MainStreet for revitalization.	Estimated 2014
Silver City	MOU between EDD and Silver City MainStreet for revitalization.	Estimated 2015
T or C	MOU between EDD and Truth or Consequences MainStreet for revitalization.	Unavailable
Tucumcari	MOU between EDD and Tucumcari MainStreet for revitalization.	Estimated 2014

SCHEDULE 4

Total Amount of Project	Amount Applicable to EDD	Amount Department Contributed During FY13	Amount Paid Up-to-Date	Audit Responsibility	Agency Reporting Revenue & Expense
\$ 137,500	\$ -	\$ -	\$ -	City of Clovis	Clovis
\$ -	\$ -	\$ -	\$ -	City of Corrales	Corrales
\$ 15,000	\$ -	\$ -	\$ -	City of Deming	Deming
\$ -	\$ -	\$ -	\$ -	City of Farmington	Farmington
\$ -	\$ -	\$ -	\$ -	City of Grants	Grants
\$ 100,000	\$ -	\$ -	\$ -	City of Las Cruces	Las Cruces
\$ 90,000	\$ -	\$ -	\$ 48,867	City of Las Vegas	Las Vegas
\$ 75,000	\$ -	\$ -	\$ -	City of Las Vegas	Las Vegas
\$ -	\$ -	\$ -	\$ -	City of Los Alamos	Los Alamos
\$ -	\$ -	\$ -	\$ -	City of Lovington	Lovington
\$ -	\$ -	\$ -	\$ -	City of Portales	Portales
\$ 45,000	\$ -	\$ -	\$ -	City of Raton	Raton
\$ 100,000	\$ -	\$ -	\$ -	City of Roswell	Roswell
\$ 175,000	\$ -	\$ -	\$ 175,000	City of Silver City	Silver City
\$ 137,500	\$ -	\$ -	\$ -	City of Silver City	Silver City
\$ -	\$ -	\$ -	\$ -	City of Truth or Consequences	T or C
\$ 157,000	\$ -	\$ -	\$ 99,399	City of Tucumcari	Tucumcari



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

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and the budgetary comparisons of the general fund and special revenue funds of the State of New Mexico Economic Development Department (the Department) as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents. We have also audited the budgetary comparison schedules of the capital projects funds, presented as supplementary information and have issued our report thereon dated December 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses described as items 13-1, 13-2 and 13-3.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency described as item 09-1.

Compliance and Other Matters

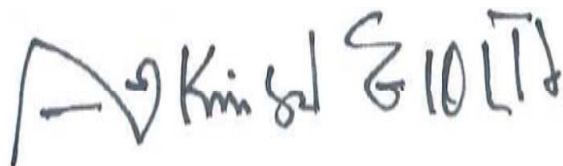
As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 13-4 and 13-5.

The Department's Response to Findings

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Atkinson & Co. Ltd.", with a stylized flourish to the left.

Atkinson & Co. Ltd.

Albuquerque, New Mexico
December 13, 2013

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2013

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

INTERNAL CONTROL OVER FINANCIAL REPORTING

Material weaknesses identified? Yes

Significant deficiencies identified not considered to be material weaknesses? Yes

COMPLIANCE AND OTHER MATTERS

Noncompliance material to the financial statements noted? Yes

STATUS OF PRIOR YEAR FINDING

09-1 Untimely Reversion to State General Fund (Significant Deficiency) – Repeated and Modified

CURRENT YEAR FINDINGS

Financial Statement Findings Required by *Government Auditing Standards*

13-1 Prior Period Restatement (Material Weakness)

13-2 Lack of Effective Reconciliation Procedures over Severance Tax Bonds Funding and Capital Appropriations (Material Weakness)

13-3 Lack of Due from State General Fund and Accrued Liabilities Reconciliations (Material Weakness)

State Audit Rule Compliance Findings - Other

13-4 Budget Overages (Compliance)

13-5 Late Submission of Auditor Recommendation and Contract (Compliance)

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2013

PRIOR YEAR FINDING

Financial Statement Findings Required by *Government Auditing Standards*

09-1 Untimely Reversion to State General Fund (Significant Deficiency)

Condition

The Department did not revert funds which were discovered and recorded during the FY12 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, 2012. During the FY13 audit, we noted they still had not been reverted. However, FY13 amounts were reverted timely.

Cause

Lack of proper controls over reversions payable and management oversight. It was noted that the Department transferred 2013 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 and Corrective Action Plan

Point of Contact: Barbara Brazil, Deputy Cabinet Secretary

The Department has hired a new ASD Director/CFO. She understands the importance of timely reversions. The 2013 reversions were completed timely and deadlines will be adhered to going forward. This reversion is currently being processed.

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2013

CURRENT YEAR FINDING

Financial Statement Findings Required by *Government Auditing Standards*

13-1 Prior Period Restatement (Material Weakness)

Condition

Two prior period restatements of \$676,675 and \$2,066,349 for the two capital projects funds were recorded to recognize \$2,743,024 of FY12 deferred revenue as FY12 severance tax bond proceeds as revenue. In addition, the schedule of fixed assets required a prior period restatement of \$36,834 for older, apparently non-existent data processing software and other capital assets which were almost fully depreciated.

Criteria

Chapters 6-5-1 through 6-5-6, NMSA 1978, require all state agencies to implement internal accounting controls designed to prevent accounting errors related to financial matters. Chapter 6-5-2-1(J) 2.20.5 & 6 NMAC requires implementation of a monthly reconciliation process with the balances and accounts kept by the State Treasurer, and Chapter 2.20.5.8C(10), NMAC requires all reporting of financial information to the state agency's management and to the oversight agencies and entities to be complete, timely and accurate. Also, GASB 34 requires agencies under its authority to maintain capital asset balances accurately.

Cause

Lack of failure of controls surrounding proper monitoring and timely reconciliations of cash receipts and related receivables. Also, lack or failure of controls over capital assets of the Department that would ensure that the schedule of fixed assets is updated for existence of beginning balances and all appropriate annual activity in that category.

Effect

Beginning net assets in both capital outlay funds were understated and deferred revenue in both funds were overstated by \$2,743,024. The Department is not in compliance with the New Mexico code stated above. In addition, the financial statements were materially incorrect in FY12. Also, fixed assets were overstated by \$36,834 and the Department cannot rely on the fixed internally prepared capital assets schedule to make any financial decisions regarding capital assets, as the balances in the internal capital assets schedule inaccurately present the information.

Recommendation

We recommend the Department establishes policies and procedures to ensure that cash receipts are being reconciled in a timely manner and posted to the correct amounts in the proper period. We also recommend the Department establishes a documented monthly review and approval process of the reconciliations to ensure proper monitoring. We also recommend the Department implement controls over the capital assets schedule to ensure that existence of assets and all activity within the category is properly reflected on the schedule. In addition, we recommend the Department implements a review process to ensure that capital assets are accurately stated with respect to depreciation estimates.

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2013

CURRENT YEAR FINDINGS - CONTINUED

Financial Statement Findings Required by *Government Auditing Standards* - Continued

13-1 Prior Period Restatement (Material Weakness) - Continued

Management's Response and Corrective Action Plan

Point of Contact: Barbara Brazil, Deputy Cabinet Secretary

We are working on internal processes to include a monthly reconciliation and review of revenue, cash, accounts receivable, accounts payable, and expenditures. The Department will prepare a monthly Severance Tax Bond Schedule to be reviewed by the CFO and Accounting/Audit Bureau Chief. The Department will also establish a monthly review of capital assets and depreciation calculations in order to maintain accurate and complete capital asset listings.

13-2 Lack of Effective Reconciliation Procedures over Severance Tax Bonds Funding and Capital Appropriations (Material Weakness)

Condition

During our audit testwork, we noted that the Department did not have an effective reconciliation process in place and would ensure that the severance tax bonds that are given to MBPS to fund certain specific projects are reconciled to the activity in those projects. In addition, we noted that the draws on the severance tax bonds (STB) were not done timely, therefore causing revenue to be understated at year end. The applicable receivable from the State General Fund was not reflected on the general ledger and the account had to be adjusted.

Criteria

Chapters 6-5-1 through 6-5-6, NMSA 1978 require all state agencies to implement internal accounting controls designed to prevent accounting errors related to financial matters. Chapter 6-5-2-1(J) 2.20.5 & 6 NMAC requires implementation of monthly reconciliation process with the balances and accounts kept by the State Treasurer, and Chapter 2.20.5.8C(10), NMAC required all reporting of financial information to the state agency's management and to the oversight agencies and entities to be complete, timely and accurate.

Cause

Lack or failure of controls surrounding proper monitoring and timely reconciliations of STB funding. The reconciliation that is being utilized does not supply the reader with accurate information; therefore it is impossible to make any financial decision based on that information.

Effect

The Department is not in compliance with the New Mexico code stated above. In addition, untimely draws and lack of the reconciliation process resulted in STB not being fully utilized before period end, creating a deficit in the fund balance and cash account.

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2013

CURRENT YEAR FINDINGS - CONTINUED

Financial Statement Findings Required by *Government Auditing Standards* - Continued

13-2 Lack of Effective Reconciliation Procedures over Severance Tax Bonds Funding and Capital Appropriations (Material Weakness) - Continued

Recommendation

We recommend the Department establishes policies and procedures to ensure that the funding for the capital project fund is being reconciled and the draw requests on STB are being submitted timely. We also recommend the Department establishes a documented monthly review and approval process of the reconciliations to ensure proper monitoring, as well as a year-end closing process be implemented for accurate financial reporting purposes.

Management's Response and Corrective Action Plan

Point of Contact: Barbara Brazil, Deputy Cabinet Secretary

We are working on internal processes to include a monthly reconciliation and review of revenue, cash, accounts, receivables, accounts payable, and expenditures. The Department will prepare a monthly Severance Tax Bond Schedule to be reviewed by the CFO and Accounting/Auditing Bureau Chief.

13-3 Lack of Due from State General Fund Reconciliation and Accrued Liabilities (Material Weakness)

Condition

During our audit testwork over receivables due from the State General Fund, we noted a large balance being carried from the prior year. Upon closer review, we determined that a cash receipt was recorded as revenue in FY13 instead of being applied against the receivable balance due from State General Fund established in FY12, which resulted in an adjustment of revenue and receivables of approximately \$939,989. The Department was responsible for reviewing all receivables and preparing and submitting any necessary correcting entries to FCD by August 15, 2013. The Department did not prepare a reconciliation of the due from State General Fund receivable balance, and did not adjust the account in a timely manner. We also noted accrued liabilities were understated by \$77,571 prior to audit adjustment at June 30, 2013.

Criteria

Chapters 6-5-1 through 6-5-6, NMSA 1978, require all state agencies to implement internal accounting controls designed to prevent accounting errors related to financial matters. Chapter 6-5-2-1(J) 2.20.5 & 6 NMAC requires implementation of a monthly reconciliation process with the balances and accounts kept by the State Treasurer, and Chapter 2.20.5.8C(10), NMAC requires all reporting of financial information to the state agency's management and to the oversight agencies and entities to be complete, timely and accurate.

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2013

CURRENT YEAR FINDINGS - CONTINUED

Financial Statement Findings Required by *Government Auditing Standards* - Continued

**13-3 Lack of Due from State General Fund Reconciliation and Accrued Liabilities
(Material Weakness) - Continued**

Cause

Lack or failure of internal controls surrounding General Ledger (GL) receivable account reconciliation; and management oversight.

Effect

Management cannot rely on the accuracy of General Ledger reports generated straight out of SHARE, as the account was not reconciled and adjusted, and therefore does not present the information regarding due from State General Fund and accrued liabilities accurately.

Recommendation

We recommend management implements monthly reconciliation procedures to ensure that the balances in the receivable and payable accrual accounts are accurate. Additionally, we recommend a review and approval process of all reconciliations, before any adjustments to GL accounts are posted, to ensure that only correct information is presented on the GL and management can rely on general ledger reports for financial decision making purposes. We also recommend a year-end closing process be implemented for accurate financial reporting purposes.

Management's Response and Corrective Action Plan

Point of Contact: Barbara Brazil, Deputy Cabinet Secretary

The Department will establish a monthly review of the general ledger, trial balance, and balance sheet in order to avoid this finding in future audits.

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2013

CURRENT YEAR FINDINGS - CONTINUED

State Audit Rule Compliance Findings - Other

13-4 Budget Overages (Compliance)

Condition

During audit testwork performed on the legislatively approved budget, we noted that the Department overexpended the budget in the other costs category in the P-526 Program Support General Fund by \$5,387.

Criteria

The legislative session determines annual budgets for all state entities, and the legal level of compliance with the budget. Per Section 2.2.2.10 of the State Auditor Rule, budget deficits are not allowed.

Cause

One budget object expenditure category went over the budget monitoring process and management due to oversight. This was caused by a \$9,400 from a FY12 audit adjustment offset against prior year due to State General Fund.

Effect

The Department is not in compliance with the State Auditor Rule 2.2.2.10.

Recommendation

We recommend the implementation of a year-end monitoring procedure over budget monitoring so the budget is never overexpended. In addition, we recommend the Department establishes a documented monthly review and approval process over the internal budget controls to ensure proper monitoring.

Management's Response and Corrective Action Plan:

Point of Contact: Barbara Brazil, Deputy Cabinet Secretary

The Department understands the purpose of monitoring the budget. The Department will establish a monthly review of the budget with the Department Manager to review the budget, trial balance, and balance sheet in order to avoid this finding in future audits.

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2013

CURRENT YEAR FINDINGS - CONTINUED

State Audit Rule Compliance Findings - Other

13-5 Late Submission of Auditor Recommendation and Contract (Compliance)

Condition

The Department submitted its audit contract and auditor recommendation to the State Auditor after the statutory deadline.

Criteria

2.2.2.8(G)(6)(c) NMAC required that auditor recommendations and completed audit contracts for state agencies be submitted by June 1st.

Cause

Administrative issues, including turnover in the Administrative Services Division Director, caused the recommendation and contract to be submitted after the deadline.

Effect

The Department was not in compliance with state regulations for contracting the annual audit.

Recommendation

We recommend that the Department begins preparing the required submissions well in advance of the deadline to ensure that the required information is submitted correctly and timely.

Management's Response and Corrective Action Plan:

Point of Contact: Barbara Brazil, Deputy Cabinet Secretary

The Department accepts the finding and will work to ensure that required submissions to the State Auditor are performed timely.

EXIT CONFERENCE

June 30, 2013

The financial statements were prepared by the independent certified public accounting firm performing the audit with the assistance of the Department's management. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are correct and in balance. Management has reviewed and approved the financial statements.

* * * * *

An exit conference was held with the Department on December 5, 2013, at the Department's offices in Albuquerque, New Mexico. In attendance were:

ECONOMIC DEVELOPMENT DEPARTMENT

Barbara Brazil
Georgette Chavez

Deputy Cabinet Secretary
Finance Bureau Chief

ATKINSON & CO., LTD.

Martin Mathisen, CPA, CGFM
Clarke Cagle, CPA, CCIFP, CGFM

Audit Director
Audit Director

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.

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