



**STATE OF NEW MEXICO
ECONOMIC DEVELOPMENT DEPARTMENT**

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

June 30, 2014

atkinson

PRECISE. PERSONAL. PROACTIVE.

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State of New Mexico Economic Development Department

OFFICIAL ROSTER

June 30, 2014

OFFICE OF THE SECRETARY

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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, 2014 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 combining funds of the general fund and major capital projects funds presented as supplementary information for the year ended June 30, 2014, 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, 2014, and the respective changes in financial position 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, 2014 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, 2014, 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. We did not modify our opinion for this matter.

Other Matters

Required Supplementary Information

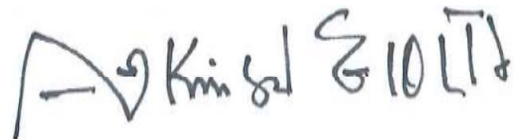
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 combining funds of the general fund and capital projects funds presented as supplementary information. The accompanying schedule of multiple year capital projects funded by special and severance tax capital outlay appropriations, schedule of individual deposit accounts and memoranda of understanding 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 3, 2014, 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* in considering the Department's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", written in a cursive style.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 3, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2014

The State of New Mexico Economic Development Department's (the Department or NMEDD) 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, 2014.

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, 2014, the total assets of the Department exceeded total liabilities by \$19,811,897.
- The Department acquired \$14,154 in total capital assets with individual acquisition values greater than \$5,000.
- Of the \$22,081,916 in total current assets, nearly 99% was in the form of cash and investments in the State General Fund Investment Pool.
- The total cost of Department programs was \$19,025,083, whereas the total Department revenue was \$22,762,622. Reversions to State General Fund amounted to \$259,948.

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 (UNAUDITED) - CONTINUED

June 30, 2014

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 residual 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, two Capital Projects Funds, and three 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 22 through 31 of this report.

Other Information. Supplemental information begins on page 54.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2014

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 \$19,811,897 at the close of the 2014 fiscal year.

The largest portion of Department net position (approximately 65%) 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 2014 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 \$3,477,591.

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 2014 fiscal year, the Department's governmental funds reported combined ending fund balances of \$19,888,185, an increase of \$3,456,835 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 2014 fiscal year, unassigned fund balance of the General Fund was \$0. This amount is not associated with non-committed funding from the JTIP Fund. During 2014, the Local Economic Development Act (LEDA) funding originated from state appropriation instead of prior years as funded by severance tax or general obligation bonds.

During the 2014 fiscal year, the net change in fund balance of the Department's General Fund increased by \$4,101,191. Fund balance was \$7,104,191 at June 30, 2014 in the General Fund, which increased largely due to LEDA appropriation funding.

The Department's assets at the fund level are mostly comprised of investment in the State General Fund Investment Pool, which is \$22,034,169 or almost 100% of the total assets. The fund liabilities are made up mostly of accounts payable, \$1,651,086, or 75%. As mentioned earlier, the Department's largest source of income comes from State General Fund Appropriations. The Department spent 17%, or \$6,251,237, on contractual services. The largest expenditure category is "other" expenditures, which include funding the JTIP and other programs. The Department spent \$4,969,741, or 26%, in this category.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2014

Financial Analysis of the Government's Funds - Continued

During the 2014 fiscal year, management determined that \$3,000,000 of non-reverting (residual by legislation) cash was received in May 2013 which was improperly included as revenue as of June 30, 2013, in the JTIP fund instead of the General Fund and recorded a prior period restatement to reclass this amount to the general fund balance without effect to total beginning net position.

Financial Analysis of the Department as a Whole

Net Position

The Department's condensed net position changed from fiscal year 2013, increasing from \$16.3 million, to \$19.8 million, which represented a 22% change.

**Detail of the Department's Condensed Net Position
as of June 30, 2014 and 2013**

	<u>FY 2014</u>	<u>FY 2013</u>	<u>Amount Change</u>	<u>Total % Change</u>
Governmental Activities				
Assets:				
Current assets	\$ 22,036,021	\$ 21,732,154	\$ 303,867	1%
Due from other state agencies	45,895	-	45,895	0%
Capital and non-current assets	56,816	67,834	(11,018)	-16%
Total assets	<u>\$ 22,138,732</u>	<u>\$ 21,799,988</u>	<u>\$ 338,744</u>	2%
Liabilities:				
Current liabilities	\$ 2,326,835	\$ 5,465,682	\$ (3,138,847)	-57%
Total liabilities	2,326,835	5,465,682	(3,138,847)	-57%
Net position:				
Invested in capital assets	56,816	67,834	(11,018)	-16%
Restricted	12,885,453	16,707,374	(3,821,921)	-23%
Unrestricted	-	(440,902)	440,902	-100%
Total net position	<u>12,942,269</u>	<u>16,334,306</u>	<u>(3,392,037)</u>	-21%
Total liabilities and net position	<u>\$ 15,269,104</u>	<u>\$ 21,799,988</u>	<u>\$ (6,530,884)</u>	-30%

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2014

Statement of Activities

The Department's change in net position for fiscal year 2014 was an increase of \$3,477,591 (Statement of Activities). Total revenues and transfers for fiscal year 2014 were \$18,205,050, of which 80% is State General Fund appropriations.

	Statement of Activities			
	<u>FY 2014</u>	<u>FY 2013</u>	<u>Amount Change</u>	<u>Total % Change</u>
Governmental Activities				
Revenues:				
Program revenue	\$ 478	\$ 35,823	\$ (35,345)	-99%
Federal other	4,527,194	-	4,527,194	0%
Operating grants	-	-	-	0%
	<u>4,527,672</u>	<u>35,823</u>	<u>4,491,849</u>	<u>12539%</u>
Total program revenues				
General revenues:				
State General Fund appropriations	17,392,878	13,297,205	4,095,673	31%
Other	-	-	-	0%
	<u>17,392,878</u>	<u>13,297,205</u>	<u>4,095,673</u>	<u>31%</u>
Total general revenues				
Total revenues				
	21,920,550	13,333,028	8,587,522	64%
Expenses:				
Economic development	19,025,083	13,054,162	5,970,921	46%
Other sources (uses):				
Severance tax bonds proceeds	812,172	487,930	324,242	66%
Operating financing uses	(230,048)	(503,904)	273,856	-54%
	<u>582,124</u>	<u>(15,974)</u>	<u>598,098</u>	<u>-3744%</u>
Total other sources				
	<u>18,442,959</u>	<u>13,070,136</u>	<u>5,372,823</u>	<u>41%</u>
Change in net position				
	3,477,591	262,892	3,214,699	1223%
Net position, beginning				
	<u>16,334,306</u>	<u>16,071,414</u>	<u>262,892</u>	<u>2%</u>
Net position, ending				
	<u>\$ 19,811,897</u>	<u>\$ 16,334,306</u>	<u>\$ 3,477,591</u>	<u>21%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2014

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 \$56,816 (net of accumulated depreciation). This investment in capital assets includes machinery and equipment. The Department expended \$14,154 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.

A significant budget increase was made to budget federal funds from the U.S. Treasury State Small Business Incentive (SSBCI) with pass-through to New Mexico Finance Authority.

The Department's total liabilities decreased \$3,138,847 over the previous fiscal year. The key factors in this increase was a decrease in accounts payable and decrease in due to the State General Fund. The Department does not have any long-term debt or unearned revenue due to the State General Fund, but does owe the state \$343,105 for reversions at June 30, 2014.

Department Overview

In FY14, 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 FY15 is anticipated to be less bleak than that experienced during FY14.

Department Efficiency

In FY14 and early FY15, the Department hired 10 of its 13 vacancies; 3 of the vacancies are unfunded; one in the Economic Development Division and two in the Film Office. The Department is currently approved for 52 FTEs, which include four positions that had been vacant for two or more years and were filled in FY14. These positions are a 1) Science and Technology Manager, 2) Business Resource Manager, 3) Financial Coordinator for the Business Development Team, and a 4) Basic Financial Specialist.

With the hiring of these staff positions, the Department has had many successes to celebrate in fiscal year 2014. The Department has two approaches to creating jobs and wealth in New Mexico: growing communities and growing and relocating businesses. Ten capital outlay projects were finalized during the year, allocating \$3.3 million to create 543 jobs in eight communities. EDD's Rural Economic Development Council, appointed by Secretary Barela in October 2012, initiated a new effort to assist rural communities in funding infrastructure and business development projects, branded New Mexico FUNDIT. FUNDIT includes state and federal agencies that come together to collectively vet projects based on a single application process. The first meeting was held in June. FUNDIT is administered by the Finance Development Team, and the Community, Business and Rural Development Team will assist communities in bringing projects to FUNDIT. The Frontier Communities Initiative completed projects in eight rural communities with a special appropriation of \$500,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2014

Department Efficiency - Continued

The Department completed 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 Branch information about how and where NMEDD resources are allocated to accomplish our statutory directive to create new jobs and wealth throughout the state. The plan is developed under the guidance of the Economic Development Commission. It is intended to provide transparency, accountability and flexibility. Also during the year, staff began a series of focus groups to update the state science and technology plan. That plan will be completed under the direction of the newly hired Science and Technology Office Manager.

The New Mexico Jobs Package signed into law by Governor Susana Martinez, in April 2013, assisted the Department in exceeding its recruited jobs announced in both 2013 and 2014. This tax reform bill will continue to 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. In February NMEDD released a study completed by Ernst & Young (E&Y) which revealed that the New Mexico Jobs Package that passed in the 2013 legislative session moved the State's ranking from 51st in the nation, in a 2011 E&Y study, to the most competitive in the West for manufacturing companies.

The New Mexico Economic Development Corporation's (NMP or Partnership) performance measure results were its highest in several years, after the Legislature appropriated an additional \$300 thousand for the Partnership for FY14. The Partnership finished the fiscal year with a total of 11 locates and 1,274 jobs. During the fourth quarter there were five site visits to the state. NMP conducted four sales missions and participated in five trade shows.

The MainStreet Program narrowly missed the annual jobs target, but Place Economics released an economic impact study that determined for every state dollar invested in the MainStreet program since 1986, MainStreet districts saw private sector investment of \$21.89 in building rehabilitation and \$22.55 in new construction. The report also estimates the program costs taxpayers \$1,127 per net new job, making it one of the most cost-effective job creation programs in New Mexico. The Job Training Incentive Program (JTIP) trained more workers than in any year since FY08.

In FY14, Economic Development Division (EDD) received \$500,000 to serve small rural communities that do not have the resources to meet the national standards for a qualified MainStreet district. EDD received 14 applications for the Initiative and 7 were chosen.

During FY14, NMEDD began the process of updating its website to aid in the recruitment of businesses to the state. The new design will allow for more interactive engagement by those who visit the site and will provide much improved analytics to understand what information is being accessed. The new format will work better with mobile devices and showcase the launch of the Business Resource Center to assist those who need information to start or grow a business regardless of geography, size, or industry sector.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2014

Department Efficiency - Continued

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 has provided training for rural community leaders and addressed training gaps which may exist within the economic development community throughout the state. 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

The Film Office experienced an active year. Of the 18 major productions for FY14, one was a pilot, five were television series and nine were features, two were major feature reshoots, and one was a "partial" feature. In FY14, there was approximately \$198M total in qualifying expenditures. About one-third of direct spend occurred in quarters one and two, and just under two-thirds of spend occurred in quarters three and four. The statistical trend that is emerging shows us that major features have higher, short-term direct spend into the New Mexico economy compared to television series which have a higher number of worker days and often return for multiple seasons.

The Legislature appropriated funds to the Department during the FY14 session that will be deployed in the FY15 fiscal year to improve the state's support of its certified incubators and rural entrepreneurial programs such as community kitchens.

Economic Development Division

The mission of the Economic Development Division (EDD) is to assist local communities improve the economic well-being and quality of life for its citizens by creating and/or retaining jobs that facilitate growth and provide for a stable tax base.

The Economic Development Division is comprised of seven teams, which contribute to the mission of the division. They are: New Mexico MainStreet Program, which includes of the Arts & Cultural District (ACD) Program, the Frontier Communities Program and the Historic Theatres Program; the Community, Business and Rural Development Team (CBRDT), which includes the Certified Communities Initiative (CCI) and the Business Retention & Expansion Program (BRE); the Finance Development Team (FDT), which includes FundIt; the Job Training Incentive Program (JTIP), which includes STEP UP; International Trade; Science & Technology, which includes the Technology Research Collaborative; and Special Projects, which includes the Rural Economic Development Council and ISO9000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2014

Economic Development Division - Continued

In FY14, 3,686 new jobs were created (1,532 rural and 2,124 urban) as a result of Economic Development Department efforts. Of this total, 1,438 jobs were created via 61 business expansions, 40 business expansions in urban communities and 21 in rural communities through the EDD's efforts. The Job Training Incentive Program provided training for 1,355 persons in new jobs and reported a one-year retention rate of 68%.

The New Mexico Economic Development Corporation (NMP or Partnership), a not-for-profit entity independent of the Department, contracts with the Economic Development Department to market and recruit economic base jobs to New Mexico. The NMP is not a component unit of the Department and was paid \$933,000 by the Department to NMP which directly received the state appropriation from the state. The Partnership finished the FY14 fiscal year with a total of 13 locates and 1,624 jobs. During the fourth quarter there were five site visits to the state. NMP conducted four sales missions and participated in five trade shows. Participating New Mexico EDC's included MVEDA, Alamogordo-Otero County EDC, Chaves County EDC, Estancia Valley EDC, 4 Corners EDC, EDC of Lea County, Gallup EDC, Clovis EDC, Albuquerque EDC, and the City of Albuquerque.

Descriptions of the Economic Development Division teams are as follows:

- The Community, Business & Rural 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. The Community Development Team oversees and administers the Certified Communities Initiative Program (CCI) and conducts Business, Retention & Expansion surveys in order to assess business needs within their regions.
- The Job Training Incentive Program (JTIP). JTIP's 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 Finance 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. The Finance Team also administers the agency's Capital Outlay funds as well as the Angel Investment Tax Credit.
- New Mexico MainStreet assists affiliated communities in revitalizing their traditional commercial neighborhoods while preserving local cultural and historic resources. The technical assistance provided to the local communities by the MainStreet team creates a positive economic environment to create jobs and grow businesses within the districts.
- International Trade promotes and facilitates export sales of New Mexico goods and services worldwide and supports efforts to recruit foreign direct investment to New Mexico in order to assist the process of job creation, retention, and expansion throughout the state.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2014

Economic Development Division - Continued

- NM ISO9000 program was created by EDD to provide training and assistance to New Mexico businesses in preparing for ISO 9001: 2008 certification. This certification is for improving a firm's quality management system. These standards have been adopted by 178 countries and over one million companies worldwide have attained this certification. Businesses need ISO certification to compete globally.
- Science and Technology will encourage start-up, relocation, development and growth of technology-based industry in New Mexico.

The Job Training Incentive Program (JTIP)

JTIP approved 46 businesses for funding across New Mexico, which led to the creation of 1355 new jobs at an average wage of \$17.32 per hour.

Finance Team

In FY14, ten capital outlay projects were finalized in the quarter, allocating \$3.3 million to create 543 jobs in eight communities. One of those projects was \$200,000 for the Raytheon Diné Warehouse on the Navajo Agricultural Products Industry (NAPI) Industrial Park. The LEDA funds will be used for the architectural and engineering design for a 30,000 square foot warehouse. The Raytheon Diné facility is responsible for electro-mechanical assemblies for Raytheon Missile Systems, supporting ten major missile programs.

Community, Business and Rural Development Team (CBRDT) & (CCI)

The regional representative can identify state/local/federal programs which match the needs of the business. In addition, the team provides technical assistance to non-profit private and public economic development entities in direct support of their local job creation efforts. The following services are provided by the Regional Representative Team: Certified Communities Initiative (CCI), which provides contractual funding of \$2,500 and up to \$20,000 for CCI designated communities or regional applicants. The funding may be used by the economic development organization to conduct industrial site analysis, workforce studies, grant writers, or for marketing the community as a site for job creation opportunities.

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

Certification requires communities to pass the Local Economic Development Act, which empowers them to embark on economic development projects tailored to their needs. Other benefits of certification include state promotion of certified communities, technical assistance in undertaking economic development efforts, and financial resources to help communities develop marketing materials, fund professional development training for staff, conduct labor market and feasibility studies, and other related projects. To date, the program includes 23 certified communities, with the majority of the original communities maintaining their certification.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2014

MainStreet and Arts and Cultural District Programs

New Mexico MainStreet currently serves 27 affiliated MainStreet Districts, six state-authorized Arts and Cultural Districts, and seven Frontier Community projects. During FY14, MainStreet Districts saw \$9.9 million in private sector investments and 101 building rehabilitations and the creation of 580 new jobs in the MainStreet districts.

Since the Main Street Movement began more than 30 years ago, commercial districts taking part in the Main Street program nationwide have cumulatively generated more than \$55.7 billion in new investment, with a net gain of more than 473,000 new jobs and 109,000 new businesses, and more than 236,000 buildings rehabilitated. Every dollar a community uses to support its local Main Street program leverages an average of \$18 in new investment, making Main Street one of the most successful economic development strategies in America.

Frontier Communities Initiative

The Frontier Communities Program provides support for small, rural communities with populations less than 7,500 to develop catalytic economic projects within a traditional or historic commercial district, such as a court house square, town center, or plaza. Projects are selected that have a demonstrably positive impact in job creation, business development, or enhancing the economic environment for the community. The program is coordinated through the New Mexico MainStreet Program, and it also provides professional technical assistance to selected communities.

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.

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 FY14 reflect seventeen new-to-export clients identified and assisted, and fourteen existing exporters were assisted in entering new markets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2014

Office of International Trade - Continued

The OIT was among a small group of awardees receiving US Small Business Administration (SBA) STEP Graft funds. The Office of International Trade will receive \$197,500 in funding that will not require a cash match from NMEDD as the funding was matched by the Department's in-kind, salary contribution. The SBA STEP Grant will allow OIT to continue its international trade efforts.

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.

The Office of Business Advocacy Mission:

The Office of Business Advocacy enables business owners to break through regulatory roadblocks and red tape. It helps to navigate state government by providing assistance with permitting, licenses, and inspections, among other issues. It also resolves challenging bureaucratic, intergovernmental, and public policy problems adversely affecting business in New Mexico. The goal is to help businesses who would not otherwise be able to hire an attorney, accountant, or lobbyist to resolve their issues with state government. The Office of Business Advocacy (OBA) assisted more than 101 businesses in FY14; of which, 67 cases were solved. Since OBA was launched in 2011, over 300 businesses have been assisted.

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

Office of Business Advocacy is also tasked with the administration of the Small Business Regulatory Advisory Commission (SBRAC), which was re-instated with five Governor appointed commissioners in 2014. SBRAC convened its first commission meeting in five years on April 24, 2014. The Office of Business Advocacy will continue to oversee SBRAC and support the administrative role to review all proposed state regulations that may impact small businesses, as directed per state statute.

In 2014, the office secured certification in mediation and dispute resolution. The certification now supports and provides dispute resolution through mediation as an alternative for resolving regulatory or contract disputes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2014

Science & Technology Program

The Science & Technology Program will encourage start-up, relocation, development and growth of technology-based industry in New Mexico. An individual was hired as the Science & Technology Manager within the Economic Development Division in July in order to attempt to uphold the Department's statutory requirements relating to technology. Those include enhancing the business climate to promote an expanded and diversified technology-based economy, emphasizing the state's technological strengths and our commercial advantages. The program manager will also administer the Technology Research Collaborative and see to it that the strategies outlined in the agency's Technology Plan are implemented.

New Mexico Film Office

The New Mexico State Film Office, a division of the Economic Development Department, serves the film, television and multi-media industry locally, nationally and internationally benefiting local economy by expanding job and business opportunities to increase in-state spending. The division's services are categorized as follows: (1) Recruitment; (2) Workforce Development; and, (3) Statewide Outreach Initiatives.

The film division's primary services and the beneficiaries of those services are described as follows:

Production Recruitment Initiative:

- 1) The **25% to 30% Refundable Film Production Tax Credit** is the division's primary recruitment tool. The film division markets the program to the film and multimedia industry, services recruited productions, and promotes job and business opportunities for New Mexico residents. This includes consulting with productions regarding the financial aspects of their projects, guiding them through the incentives, as well as connecting the productions with the crew, vendor services and film liaisons throughout the state.

In FY14, approximately \$200M in qualifying expenditures, for services rendered in-state and subject to state taxation, were made by participating productions. Eighteen of the sixty-one participating productions were major film and television projects with budgets over one million dollars. Statistics are updated quarterly at nmfilm.com.

- 2) Providing **location services** gives productions direction to consider statewide buildings and land on which to film. These services include script breakdowns, location photography, location contacts, and periodic scouting (showing "properties"). A database of production inquiries and recruited companies is maintained by the division and includes online searchable locations with over 50,000 photographs of 8,000 plus properties.

In FY14, over two-hundred and seventy-five projects were entered into this production database, of which almost half received at least one location breakdown. Additional projects were serviced from previous years as some projects begin development more than one year in advance.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2014

Production Recruitment Initiative - Continued:

- 3) In addition to promoting and providing production services, the film office has initiated emerging media opportunities through the development of a collaborative accelerator which includes expanding industry infrastructure, targeting businesses in digital technologies that affect multiple industries, and providing additional entrepreneurial opportunities for New Mexico residents. This accelerator is anticipated to be active within calendar year 2015.

Workforce Development:

- 4) The **Job Training Incentive Program for Film & Multimedia (JTIP)** provides workforce development to resident crew technicians employed by productions. JTIP is divided into two sub-programs, the Film Crew Advancement Program (FCAP) and the Pre-Employment Training Program (PETP), implemented in FY04 and FY06, respectively. FCAP provides job opportunities during production for crew to diversify their skill sets increasing continual employment in the industry. PETP focuses on honing industry skill sets between projects to increase resident crew employment on productions when job opportunities arise. The film division continues to expand and amend the program to effectively meet industry needs and trends.

In FY14, training requirements were included in aspects of the Film Production Tax Credit and will increase PETP opportunities in FY15. And, twelve companies participated in FCAP, benefiting eighty-four residents. Outreach efforts to resident veterans with transitional skills were also made in FY14, providing qualifying participants with opportunities in FCAP.

Statewide Outreach Initiatives: The NMFO also provides many resources to producers, film crew and local filmmakers including regional forums, events, and social media platforms, which assist with educating the public about the industry and the division's resources.

- 5) These resources include the **educational programs initiative** which provides opportunities to learn about film and media training available throughout New Mexico. In FY14, it was decided the division's Film & Media Education Summit will occur annually.
- 6) The **NM Filmmakers Program** also creates support and resources for resident filmmakers pursuing their careers in-state. The main annual event is the NM Filmmakers Showcase and screenings of local filmmakers' projects are coordinated throughout the state each year.
- 7) Expanding the **Statewide Film Liaison Network** continues to be a priority and the film division provides training of designated contacts in rural areas, which assists both the industry and communities in building economically beneficial relationships.
- 8) The film division continues to collaborate with the Tourism Department, leading the state in developing and expanding the **NM Film Tourism Initiative**. The NM True campaign includes "NM Film Trails," offering another navigation tool for the tourist experience.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2014

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, 2014

	<u>Governmental Activities</u>
ASSETS	
Investment in State General Fund Investment Pool	\$ 22,034,169
Due from other state agencies	45,895
Other	1,852
Capital assets, net	<u>56,816</u>
 Total assets	 <u><u>\$ 22,138,732</u></u>
LIABILITIES	
Accounts payable	\$ 1,651,086
Accrued payroll	82,904
Other liabilities	70,741
Due to State General Fund	343,105
Compensated absences payable:	
Expected to be paid within one year	<u>178,999</u>
 Total liabilities	 2,326,835
NET POSITION	
Net investment in capital assets	56,816
Restricted	19,755,081
Unrestricted	<u>-</u>
 Total net position	 <u>19,811,897</u>
 Total liabilities and net position	 <u><u>\$ 22,138,732</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, 2014

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	\$ 12,045,522	\$ 478	\$ -	\$ -	\$ (12,045,044)
Film	726,630	-	-	-	(726,630)
Program support	1,888,093	-	-	-	(1,888,093)
Other initiatives	4,364,838	-	4,527,194	-	162,356
Total governmental activities	\$ 19,025,083	\$ 478	\$ 4,527,194	\$ -	(14,497,411)
General revenues (expenses)					
Other revenue:					
					17,392,878
					812,172
					29,900
					-
					(259,948)
					<u>17,975,002</u>
					Change in net position 3,477,591
					<u>16,334,306</u>
					<u>\$ 19,811,897</u>

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

State of New Mexico Economic Development Department

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2014

	18900 & 38400	63800	Major 02800 Capital Projects Fund
	General Fund	JTIP Fund	Fund
ASSETS			
Investment in State General Fund			
Investment Pool	\$ 7,894,364	\$ 13,883,362	\$ 21,874
Due from other State Agencies	-	-	-
Due from other funds	-	-	-
Other	1,852	-	-
	<u>1,852</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 7,896,216</u>	<u>\$ 13,883,362</u>	<u>\$ 21,874</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 445,579	\$ 1,057,557	\$ -
Accrued payroll	82,904	-	-
Other liabilities	718	70,023	-
Unearned revenue	-	-	-
Due to other funds	-	-	-
Due to State General Fund	262,824	-	80,281
	<u>262,824</u>	<u>-</u>	<u>80,281</u>
Total liabilities	792,025	1,127,580	80,281
FUND BALANCES			
Restricted	7,104,191	12,755,782	-
Unassigned	-	-	(58,407)
	<u>-</u>	<u>-</u>	<u>(58,407)</u>
Total fund balances (deficit)	<u>7,104,191</u>	<u>12,755,782</u>	<u>(58,407)</u>
Total liabilities and fund balance	<u>\$ 7,896,216</u>	<u>\$ 13,883,362</u>	<u>\$ 21,874</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
\$ 150,793	\$ 81,068	\$ 2,708	\$ 22,034,169
45,895	-	-	45,895
-	-	-	-
-	-	-	1,852
<u>\$ 196,688</u>	<u>\$ 81,068</u>	<u>\$ 2,708</u>	<u>\$ 22,081,916</u>
\$ 147,950	\$ -	\$ -	\$ 1,651,086
-	-	-	82,904
-	-	-	70,741
45,895	-	-	45,895
-	-	-	-
-	-	-	343,105
193,845	-	-	2,193,731
-	81,068	2,708	19,943,749
2,843	-	-	(55,564)
<u>2,843</u>	<u>81,068</u>	<u>2,708</u>	<u>19,888,185</u>
<u>\$ 196,688</u>	<u>\$ 81,068</u>	<u>\$ 2,708</u>	<u>\$ 22,081,916</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, 2014

Total Fund Balance - Governmental Funds (Governmental Funds Balance Sheet)		\$ 19,888,185
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Amount of change in unearned revenue, recorded at the fund level due to the restrictions placed by the period of availability, recognized as revenue on the Statement of Net Position.		45,895
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Capital assets total acquisition value	147,476	
Total accumulated depreciation	<u>(90,660)</u>	
Total capital assets, net		56,816
Compensated absences payable		<u>(178,999)</u>
Total liabilities		<u>(178,999)</u>
Net position of governmental activities (Statement of Net Position)		<u>\$ 19,811,897</u>

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, 2014

	18900 & 38400	63800	Major 02800 Capital Projects Fund
	General Fund	JTIP Fund	
Revenues			
Federal other	\$ 4,527,194	\$ -	\$ -
Other revenue	53	-	-
Total revenues	4,527,247	-	-
Expenditures			
Current:			
Personal services and benefits	3,332,482	-	-
Contractual services	6,188,224	63,013	-
Other	676,924	3,805,228	179
Capital outlay	14,154	-	-
Federal - direct	86,775	-	-
Federal - passthrough	4,345,555	-	-
Total expenditures	14,644,114	3,868,241	179
Excess (deficiency) of revenue over expenditures	(10,116,867)	(3,868,241)	(179)
Other Financing Sources (Uses)			
State General Fund appropriations	14,392,878	3,000,000	-
Other financing sources - compensation package	29,900	-	-
Transfers out - reversions to State General Fund FY14	(201,720)	-	(58,228)
Severance tax bond proceeds	-	-	-
Transfers in (out) - other	-	-	-
Total other financing sources (uses)	14,221,058	3,000,000	(58,228)
Net change in fund balances	4,104,191	(868,241)	(58,407)
Beginning fund balance, before restatement	-	16,624,023	-
Prior period restatement	3,000,000	(3,000,000)	-
Beginning fund balance, after restatement	3,000,000	13,624,023	-
Ending fund balance	<u>\$ 7,104,191</u>	<u>\$ 12,755,782</u>	<u>\$ (58,407)</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
\$ -	\$ -	\$ -	\$ 4,527,194
-	-	425	478
-	-	425	4,527,672
-	-	-	3,332,482
-	-	-	6,251,237
487,410	-	-	4,969,741
-	-	-	14,154
-	-	-	86,775
-	-	-	4,345,555
487,410	-	-	18,999,944
(487,410)	-	425	(14,472,272)
-	-	-	17,392,878
-	-	-	29,900
-	-	-	(259,948)
766,277	-	-	766,277
-	-	-	-
766,277	-	-	17,929,107
278,867	-	425	3,456,835
(276,024)	81,068	2,283	16,431,350
-	-	-	-
(276,024)	81,068	2,283	16,431,350
\$ 2,843	\$ 81,068	\$ 2,708	\$ 19,888,185

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, 2014

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ 3,456,835
Amounts reported for governmental activities in the Statement of Activities are different because:	
Amount of change in unearned revenue, recorded at the fund level due to the restrictions placed by the period of availability, recognized as revenue on the Statements of Activities.	45,895
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 assets	14,154
Depreciation expense	(25,172)
Change in compensated absence balance not recorded in governmental funds	<u>(14,121)</u>
Change in net position of governmental activities (Statement of Activities)	<u>\$ 3,477,591</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 -
BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND - FUND 18900
ALL APPROPRIATIONS**

Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ 6,592,800	\$ 6,592,800	\$ 3,592,878	\$ (2,999,922)
Other appropriations	14,600,000	14,600,000	10,800,000	(3,800,000)
Federal other	-	4,452,255	4,527,194	74,939
Other financing sources - compensation package	29,900	29,900	29,900	-
Other revenue	-	-	53	53
Total revenues	\$ 21,222,700	\$ 25,674,955	18,950,025	\$ (6,724,930)
Expenditures				
Personal services and benefits	\$ 3,764,100	\$ 3,474,655	3,332,482	\$ 142,173
Contract services	6,100,700	6,295,530	6,274,999	20,531
Other	557,900	5,104,770	5,036,633	68,137
Total expenditures	\$ 10,422,700	\$ 14,874,955	14,644,114	\$ 230,841
Excess (deficiency) of revenue over expenditures			4,305,911	
GAAP basis reconciliation				
Reversions - General Fund			(201,720)	
Prior year bills paid with current year funds			-	
Current year bills paid with funds from next year			-	
Net change in fund balance			\$ 4,104,191	

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 -
BUDGET AND ACTUAL (BUDGETARY BASIS)
JOB INCENTIVE TRAINING PROGRAM - FUND 63800**

Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	3,000,000	3,000,000	3,000,000	-
Federal grants	-	-	-	-
Other financing sources	-	-	-	-
Other revenue	-	-	-	-
Total revenues	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	3,000,000	<u>\$ -</u>
EXPENDITURES				
Current				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contractual services	100,000	100,000	63,013	36,987
Other costs	2,900,000	8,400,000	3,805,228	4,594,772
Total expenditures	<u>\$ 3,000,000</u>	<u>\$ 8,500,000</u>	3,868,241	<u>\$ 4,631,759</u>
Excess (deficiency) of revenue over expenditures			(868,241)	
GAAP basis reconciliation				
Timing differences due to accounts payable			-	
Net change in fund balance			<u>\$ (868,241)</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 -
BUDGET AND ACTUAL (BUDGETARY BASIS)
REVOLVING LOAN COMMUNITY DEVELOPMENT - FUND 02300**

Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	-	-	-	-
Federal grants	-	-	-	-
Other financing sources	-	-	-	-
Other revenue	-	-	-	-
Total revenues	\$ -	\$ -	-	\$ -
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total expenditures	\$ -	-	-	\$ -
Excess (deficiency) of revenue over expenditures			-	
GAAP basis reconciliation				
Reversions			-	
Net change in fund balance			\$ -	

This fund was not budgeted due to expected minimal activity.

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 -
BUDGET AND ACTUAL (BUDGETARY BASIS)
ISO 9000 - FUND 20530**

Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	-	-	-	-
Federal grants	-	-	-	-
Other financing sources	-	-	-	-
Other revenue	-	-	425	425
Total revenues	\$ -	\$ -	425	\$ 425
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total expenditures	\$ -	\$ -	-	\$ -
Excess (deficiency) of revenue over expenditures			425	
GAAP basis reconciliation				
Reversions			-	
Net change in fund balance			\$ 425	

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, 2014

NOTE A - DEFINITION OF REPORTING ENTITY

The reporting entity is the Economic Development Department (the 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, 2014

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, 2014

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, and 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, 2014. See Note P 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, 2014

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 can create negative unrestricted net position on the government wide financial statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

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 all of its funds as major funds which are 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 report a summary of sources and uses of available spendable resources during a period.

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

General Fund - The General Fund is the general operating fund of the Department and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is funded primarily through appropriations from the State of New Mexico General Fund (SHARE Fund 18900). The General Fund is a reverting fund for operations only. All other appropriations including JTIP and LEDA included in the General Fund are non-reverting and restricted by enabling legislation.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation – Fund Accounting - Continued

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, 2014.

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). One of the Capital Projects Funds has a deficit fund balance of \$58,407 as of June 30, 2014. The deficit is attributable to the Department reverting remaining balance of special capital outlay appropriations that expired in fiscal year 2012. The Department never received an anticipated extension.

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, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus. Under the accrual basis, revenues are recorded when earned and expenses are recorded at the time liabilities or obligations 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. All significant interfund transactions have been eliminated. Deferred inflows and deferred outflows 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 financial position.

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 inflows of resources by the recipient.

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

The Department has implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which codifies preexisting authoritative guidance from all sources into GASB standards and edits such standards for the government environment as appropriate. It further eliminates the election for proprietary fund and business type reporting entities to apply certain Financial Accounting Standards guidance after November 30, 1989.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Measurement Focus and Basis of Accounting - Continued

The Department has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 introduced a fundamental change to the reporting of elements that make up a statement of financial position.

Deferred outflows of resources consumed and deferred inflows of resources received and available are now included in the elements that make up a statement of financial net position and GASB 63 introduced the term *net position* for reporting the residual of all elements in a statement of financial net position. The statement of financial net position of the Department at June 30, 2014 conforms to the presentation requirements of GASB 63.

The Department implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* changes the classification of various financial statement balances including several more common type transactions for presentation as assets and liabilities to deferred outflows and inflows of resources. Any unearned revenue for federal or state grants whereas eligibility requirements have not been met will be classified as deferred inflows of resources beginning this year under this standard. There were \$45,895 of unearned revenues as of the year ended June 30, 2014 due to cash being received after 60 days on capital projects draw downs under the modified accrual method of accounting. All eligibility requirements had been met. There were no deferred outflows or inflows of resources to separately report at June 30, 2014.

The Department engages in federal grant agreement programs commonly referred to as "reimbursement type" programs. These programs require that the recipient (the Department) must incur allowable costs as defined by the agreement types in order to draw down funds against the particular project. This is the principal eligibility requirement for the recognition of the revenue. Upon incurring an allowable cost, the Department simultaneously recognizes a receivable and revenue in the amount of the expenditures incurred. All other eligibility requirements or grants, as applicable, must also be satisfied.

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. 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Budgets and Budgetary Accounting - Continued

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.

7. Unearned Revenue

Unearned revenue represents a liability for the Governmental Funds. Unearned revenue is used to account for (1) amounts received from federal grants in advance of expenditures occurring, whereas certain eligibility requirements (other than time) have not yet been met 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.

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.

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)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Non-Reverting Funds - Continued

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, 2014 should be paid on or before September 30, 2014. Reversions are not budgeted.

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.

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Capital Assets - Continued

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 GASB 62 accounting principles. The Department acquired or developed no software in FY14.

15. Fund Balances and Net Position

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted or unrestricted and spendable, 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. All of the Department's fund balances are restricted or unassigned.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the 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 Jobs 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 balances are 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 balances are 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. State Small Business Credit Initiative

The State Small Business Credit Initiative (SSBCI) Act of 2010 is a Federal program administered by the US Department of the Treasury (US Treasury) to strengthen state programs that support private financing to small businesses and small manufactures. Funds transferred under SSBCI are not considered a grant or other type of federal assistance subject to single audit under Circular A-133. Section 3003(c)(5) of the Act specifically states that funds transferred to states, territories, and eligible municipalities under the SSBCI program are not considered federal assistance for the purposes of subtitle V and title 31 of the United States Code. The SSBCI allows states, territories and eligible municipalities the opportunity to build upon or create successful models for state small business programs, including Capital Access Programs (CAPs), and Other Credit Support Programs (OCSPs) such as collateral support programs, loan participation programs, loan guarantee programs, and venture capital programs. The allocation commitment awarded to the Department as the eligible state agency was \$13,168,350 which expires on March 31, 2017. The first tranche of the allocation was received in 2011 and the second tranche in the amount of \$4,345,555, was received as program income and passed through to the New Mexico Mortgage Finance Authority recorded as expenditure by the Department during the year ended June 30, 2014.

18. Subsequent Events

Management evaluated subsequent events through December 3, 2014, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2014, but prior to December 3, 2014, that provided additional evidence about conditions that existed at June 30, 2014 have been recognized in the financial statements for the year ended June 30, 2014. Events or transactions that provided evidence about conditions that did not exist at June 30, 2014, 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, 2014.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

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.

Phase I of the Cash Management Remediation Project (completed in May 2013) implemented statewide business process changes and corrected numerous SHARE System configurations. As a result of the changes and corrections, DFA/FCD was able to begin reconciling activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. However, additional critical business process changes and corrections to configurations within the SHARE system remain to be completed; therefore, Cash Management Remediation Project, Phase II, commenced July 2014. Its scope was to perform reconciliations from July 2006 to January 2013. It is not completed as of November 2014.

For prior fiscal years, DFA recorded a loss contingency in the General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool; that estimate has not been changed to date. 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 reconciled its deposits, vouchers, and other general ledger activity with the Department of Finance and Administration to SHARE on a periodic basis to ensure proper posting.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

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.

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, 2014.

The Department has deposits, as defined in the Schedule of Individual Deposit Accounts, of \$22,034,167 with the Office of the State Treasurer in the State General Fund Investment Pool.

2. Credit Risk

For a detailed listing of all agency bank accounts and State Treasurer SHARE accounts, see the schedule referred to above on page 65.

NOTE E - DUE TO/FROM OTHER STATE AGENCIES

NMEDD Fund	Purpose	Affiliate Name	Affiliate Fund	Due To	Due From
89200	To fund Capital Projects through Severance Tax Bonds	Dept. of Finance & Administration	81500	\$ -	\$ 45,895
Total				<u>\$ -</u>	<u>\$ 45,895</u>

State of New Mexico Economic Development Department

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE F - DUE TO/FROM STATE GENERAL FUND

NMEDD Fund	Purpose	Affiliate Name	Affiliate Fund	Due To	Due From
02800	Reversion of Business Incubator Improvement Project	Dept. of Finance & Administration	39401	\$ 2,243	\$ -
02800	Reversion of Tucumcari in Capital Project	Dept. of Finance & Administration	39401	19,810	-
02800	Reversion of Media Production and Education Special Capital Appropriation	Dept. of Finance & Administration	39401	58,228	-
18900	Reversion of unreserved. Undesignated balance in the operation fund at 06/30/2014	Dept. of Finance & Administration	39401	200,143	-
18900	Reversion of MainStreet special appropriations in the operation fund at 06/30/2014	Dept. of Finance & Administration	39401	1,577	-
18900	Reversion of unreserved. Undesignated balance in the operation fund at 06/30/2010	Dept. of Finance & Administration	39401	61,104	-
Total				<u>\$ 343,105</u>	<u>\$ -</u>

NOTE G - RELATED PARTY TRANSACTIONS

The Department is responsible for providing administrative support to the agencies it is 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, associated with those projects.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE H - CAPITAL ASSETS

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets:				
Equipment and machinery	\$ 107,250	\$ 14,154	\$ -	\$ 121,404
Building and structures	26,072	-	-	26,072
Total capital assets	133,322	14,154	-	147,476
Accumulated depreciation:				
Equipment and machinery	62,035	22,565	-	84,600
Buildings and structures	3,453	2,607	-	6,060
Total accumulated depreciation	65,488	25,172	-	90,660
Net capital assets	<u>\$ 67,834</u>	<u>\$ (11,018)</u>	<u>\$ -</u>	<u>\$ 56,816</u>

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

Depreciation expense was charged to functions as follows:

Economic development	\$ 15,926
Film	961
Program support	2,515
Other initiatives	5,770
	<u>5,770</u>
Total	<u>\$ 25,172</u>

NOTE I - 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE I - COMPENSATED ABSENCES - CONTINUED

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, 2013	Increase	Decrease	Balance June 30, 2014	Amounts Due Within One Year
Compensated absences	\$ 164,878	\$ 166,279	\$ (152,158)	\$ 178,999	\$ 178,999

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

There was no short-term debt activity in FY14.

NOTE J - REVERSIONS

Current year reversions for the State General Fund as of June 30, 2014 were as follows:

Appropriation Year	Fund Type	SHARE System Fund	Reversion
Laws of 2013	General Fund	18900	\$ 200,143
Laws of 2013	General Fund	18900	1,577
Laws of 2008	Capital Projects	02800	58,228

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 \$343,105, (\$161,385 of prior year unsettled reversions and \$201,720 of the current year reverting balance) is payable at June 30, 2014 and due by September 30, 2014. 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 2015.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE K - 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% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department's contributions to PERA for the fiscal years ending June 30, 2014, 2013, and 2012 were \$383,498, \$353,596, and \$308,169, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE L - 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE L - POST EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN - CONTINUED

1. Plan Description - Continued

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

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, 2014, 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.

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

Fiscal Year	Employer Contribution Rate	Employee Contribution Rate
FY15	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, 2014, 2013, and 2012 were \$46,314, \$46,894, and \$41,937, respectively, which equal the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE M - 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, 2014 amounted to \$153,911.

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, 2014.

2015	\$	61,509
2016		8,915
2017 and thereafter		-
	\$	70,424

NOTE N - 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, 2014, 2013, and 2012, there were no settlements that exceeded insurance coverage.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE O - 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, 2014 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)	\$ -	\$ 12,755,782	\$ -
Revolving Loan Community Development (Laws of 1983, Ch. 299)	-	81,068	-
Assigned:			
ISO 9000	-	2,708	-
Non-reverting by enabling legislation	7,104,191	-	-
Unassigned (deficit)	-	-	(55,564)
	<u>\$ 7,104,191</u>	<u>\$ 12,839,558</u>	<u>\$ (55,564)</u>

The amount of net position restricted by enabling legislation is \$19,943,749 as reported above. The Department expects to eliminate the negative fund balance in major capital funds through future funding or fund transfer.

NOTE P - NEW ACCOUNTING STANDARDS

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 \$4.62 billion based on the most recently issued audited financial statement at June 30, 2013. Legislation was passed in the last year changing PERA's plan benefits design and contribution requirements to fully fund UAAL within 30 years. The FY15 financial statements for the Department will contain a material liability for pension participation.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE P - NEW ACCOUNTING STANDARDS - CONTINUED

GASB 69

This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term “government combinations” includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. GASB 69 is effective for FY 2015. The Department has evaluated GASB 69 and does not believe that it will have an impact on its financial statements.

GASB 71

This standard revises existing guidance for a government employer to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of GASB 71 are required to be applied simultaneously with the provisions of GASB 68. (See above.) At this time management is unable to estimate the magnitude of application of this standard to the Department.

NOTE Q - PRIOR PERIOD RESTATEMENT - GOVERNMENTAL FUNDS

Prior period restatement – A reclassification was made to beginning net position for governmental funds due to a recording of \$3,000,000 appropriation into the JTIP Fund instead of the General Fund as of June 30, 2013. The net effect of prior period restatement to total beginning net position is \$0 as of June 30, 2014.

SUPPLEMENTAL INFORMATION

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS)
ECONOMIC DEVELOPMENT - FUND 18900 P512
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ 3,862,200	\$ 3,862,200	\$ 862,200	\$ (3,000,000)
Other appropriations	-	-	-	-
Federal funds	-	4,452,255	4,527,194	74,939
Other financing sources	14,720	14,720	14,720	-
Other revenue	-	-	53	53
Total revenues	\$ 3,876,920	\$ 8,329,175	5,404,167	\$ (2,925,008)
Expenditures				
Personal services and benefits	\$ 1,651,120	\$ 1,581,120	1,517,022	\$ 64,098
Contract services	1,993,000	2,013,485	2,009,367	4,118
Other	232,800	4,734,570	4,695,852	38,718
Other financing uses	-	-	-	-
Total budgeted expenditures	\$ 3,876,920	\$ 8,329,175	8,222,241	\$ 106,934
Excess (deficiency) of revenue over expenditures			(2,818,074)	
GAAP basis reconciliation				
Reversion to State General Fund			(78,402)	
Net change in fund balance			<u>\$ (2,896,476)</u>	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS)
FILM DIVISION - FUND 18900 P514
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ 753,800	\$ 753,800	\$ 753,874	\$ 74
Other appropriations	-	-	-	-
Federal funds	-	-	-	-
Other financing sources	3,330	3,330	3,330	-
Other revenue	-	-	-	-
Total revenues	<u>\$ 757,130</u>	<u>\$ 757,130</u>	757,204	<u>\$ 74</u>
Expenditures				
Personal services and benefits	\$ 540,430	\$ 415,985	415,985	\$ -
Contract services	97,800	222,245	207,258	14,987
Other	118,900	118,900	101,887	17,013
Other financing uses	-	-	-	-
Total budgeted expenditures	<u>\$ 757,130</u>	<u>\$ 757,130</u>	725,130	<u>\$ 32,000</u>
Excess (deficiency) of revenue over expenditures			32,074	
GAAP basis reconciliation				
Reversion to State General Fund			(31,951)	
Net change in fund balance			<u>\$ 123</u>	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS)
PROGRAM SUPPORT - FUND 18900 P526
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ 1,976,800	\$ 1,976,800	\$ 1,976,804	\$ 4
Other appropriations	-	-	-	-
Federal funds	-	-	-	-
Other financing sources	11,850	11,850	11,850	-
Other revenue	-	-	-	-
Total revenues	<u>\$ 1,988,650</u>	<u>\$ 1,988,650</u>	1,988,654	<u>\$ 4</u>
Expenditures				
Personal services and benefits	\$ 1,572,550	\$ 1,477,550	1,399,475	\$ 78,075
Contract services	214,900	264,800	263,377	1,423
Other	201,200	246,300	235,469	10,831
Other financing uses	-	-	-	-
Total budgeted expenditures	<u>\$ 1,988,650</u>	<u>\$ 1,988,650</u>	1,898,321	<u>\$ 90,329</u>
Excess (deficiency) of revenue over expenditures			90,333	
GAAP basis reconciliation				
Reversion to State General Fund			(89,789)	
Net change in fund balance			<u>\$ 544</u>	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS)
SPECIAL MULTI-YEAR APPROPRIATION - MAINSTREET PROGRAM
ENDS JUNE 30, 2014 - FUND 18900 Z30529
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	500,000	500,000	-	-
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	\$ 500,000	\$ 500,000	-	\$ -
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	495,000	495,000	494,997	3
Other	5,000	5,000	3,425	1,575
Other financing uses	-	-	-	-
Total budgeted expenditures	\$ 500,000	\$ 500,000	498,422	\$ 1,578
Excess (deficiency) of revenue over expenditures			(498,422)	
GAAP basis reconciliation				
Reversion to State General Fund			(1,578)	
Net change in fund balance			\$ (500,000)	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS)
SPECIAL MULTI-YEAR APPROPRIATION - LEDA PROGRAM
ENDS JUNE 30, 2014 - FUND 18900 Z30530
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	3,300,000	3,300,000	-	(3,300,000)
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	\$ 3,300,000	\$ 3,300,000	-	\$ (3,300,000)
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	3,300,000	3,300,000	3,300,000	-
Other	-	-	-	-
Other financing uses	-	-	-	-
Total budgeted expenditures	\$ 3,300,000	\$ 3,300,000	3,300,000	-
Excess (deficiency) of revenue over expenditures			(3,300,000)	
GAAP basis reconciliation				
Reversion to State General Fund			-	
Net change in fund balance			\$ (3,300,000)	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS)
SPECIAL MULTI-YEAR APPROPRIATION - LEDA PROGRAM
ENDS JUNE 30, 2015 - FUND 18900 Z30533
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	10,000,000	10,000,000	10,000,000	-
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	\$ 10,000,000	\$ 10,000,000	10,000,000	\$ -
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	-	-	-	-
Other	-	-	-	-
Other financing uses	-	-	-	-
Total budgeted expenditures	\$ -	\$ -	-	-
Excess (deficiency) of revenue over expenditures			10,000,000	
GAAP basis reconciliation				
Reversion to State General Fund			-	
Net change in fund balance			\$ 10,000,000	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS)
SPECIAL MULTI-YEAR APPROPRIATION - MAINSTREET PROGRAM
ENDS JUNE 30, 2015 - FUND 18900 Z30534
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	500,000	500,000	500,000	-
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	\$ 500,000	\$ 500,000	500,000	\$ -
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	-	-	-	-
Other	-	-	-	-
Other financing uses	-	-	-	-
Total budgeted expenditures	\$ -	\$ -	-	-
Excess (deficiency) of revenue over expenditures			500,000	
GAAP basis reconciliation				
Reversion to State General Fund			-	
Net change in fund balance			\$ 500,000	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS)
SPECIAL MULTI-YEAR APPROPRIATION - FEASIBILITY STUDY RAIL LINE
ENDS JUNE 30, 2015 - FUND 18900 Z30535
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	300,000	300,000	300,000	-
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	\$ 300,000	\$ 300,000	300,000	\$ -
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	-	-	-	-
Other	-	-	-	-
Other financing uses	-	-	-	-
Total budgeted expenditures	\$ -	\$ -	-	-
Excess (deficiency) of revenue over expenditures			300,000	
GAAP basis reconciliation				
Reversion to State General Fund			-	
Net change in fund balance			\$ 300,000	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES - MAJOR CAPITAL PROJECTS FUND
BUDGET AND ACTUAL (BUDGETARY BASIS)
SEVERANCE TAX BOND CAPITAL PROJECTS FUND - FUND 02800**

Year Ended June 30, 2014

	Life to Date Budgeted Amount	FY 2014 Amount Budgetary Basis	Life to Date Actual Amount (Budgetary Basis)	Variance Over (Under)
Revenues				
Capital outlay appropriations	\$ 2,250,000	\$ -	\$ 2,171,772	\$ 78,228
Severance tax bonds proceeds	-	-	-	-
Total revenues	\$ 2,250,000	-	\$ 2,171,772	\$ 78,228
Expenditures				
Personal services and benefits	\$ -	-	\$ -	\$ -
Contractual services	-	-	-	-
Other costs	2,250,000	179	2,171,772	(78,228)
Total expenditures	\$ -	179	\$ 2,171,772	\$ (78,228)
Excess (deficiency) of revenue over expenditures		(179)		
GAAP basis reconciliation				
Reversions		(58,228)		
Net change in fund balance		\$ (58,407)		

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES - MAJOR CAPITAL PROJECTS FUND
BUDGET AND ACTUAL (BUDGETARY BASIS)
SEVERANCE TAX BOND CAPITAL PROJECTS FUND - FUND 89200**

Year Ended June 30, 2014

	Life to Date Budgeted Amount	FY 2014 Amount Budgetary Basis	Life to Date Actual Amount (Budgetary Basis)	Variance Over (Under)
Revenues				
Federal funds	\$ -	\$ -	\$ -	\$ -
Severance Tax Bonds	6,500,000	766,277	731,902	(5,768,098)
Interest	-	-	-	-
Total revenues	<u>\$ 6,500,000</u>	766,277	<u>\$ 731,902</u>	<u>\$ (5,768,098)</u>
Expenditures				
Personal services and benefits	\$ -	-	\$ -	\$ -
Contractual services	-	-	-	-
Other costs	6,500,000	487,410	731,902	(5,768,098)
Total expenditures	<u>\$ 6,500,000</u>	<u>487,410</u>	<u>\$ 731,902</u>	<u>\$ (5,768,098)</u>
Excess (deficiency) of revenue over expenditures		278,867		
GAAP basis reconciliation				
Due from other state agencies		-		
Reversions		-		
Net change in fund balance		<u>\$ 278,867</u>		

State of New Mexico Economic Development Department

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

Year Ended June 30, 2014

<u>Project Description</u>	<u>Expiration</u>	<u>Amount Appropriated</u>	<u>Current Year Expenditures</u>	<u>Current Year Reversions</u>	<u>Prior Year Incurred Balance</u>	<u>Balance as of June 30, 2014</u>
<u>Special Capital Outlay Appropriations</u>						
Media Production Education and Training	6/30/2012	\$ 250,000	\$ -	\$ 58,228	\$ 191,772	\$ -
Albuquerque Eclipse Aviation	6/30/2012	2,000,000	-	-	1,980,000	20,000 *
Total Capital Appropriations		2,250,000	-	58,228	2,171,772	20,000
<u>Severance Tax Bond Proceeds</u>						
Economic Development Mainstreet Projects	6/30/2016	1,000,000	436,410	-	244,492	319,098
Economic Development Mainstreet Projects	6/30/2017	500,000	51,000	-	-	449,000
Economic Development LEDA Projects	6/30/2018	5,000,000	-	-	-	5,000,000
Total Severance Tax Bonds		6,500,000	487,410	-	244,492	5,768,098
Total Capital Projects		<u>\$8,750,000</u>	<u>\$ 487,410</u>	<u>\$ 58,228</u>	<u>\$ 2,416,264</u>	<u>\$ 5,788,098</u>

*The remaining amount will be transferred to AIPP in FY15.

State of New Mexico Economic Development Department

SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS

Year Ended June 30, 2014

<u>Fund Name</u>	<u>Fund Number</u>	<u>Fund Type</u>	<u>Depository</u>	<u>Unadjusted Balances</u>	<u>Adjustments/ Reconciling Items</u>	<u>Reconciled Balance per Books</u>
Cash with State General Fund Investment Pool (with SHARE fund numbers):						
General Fund	18900	Operating	State Treasury	\$ 7,842,723	\$ -	\$ 7,842,723
In-Plant Training Fund	63800	Special revenue	State Treasury	13,883,362	-	13,883,362
Revolving Loan Community Development	02300	Special revenue	State Treasury	(54,718)	135,786	81,068
Technology Enterprise Fund	38400 *	Special revenue	State Treasury	51,641	-	51,641
ISO 9000	20530	Special revenue	State Treasury	2,708	-	2,708
Capital Projects Fund	89200	Capital project	State Treasury	150,793	-	150,793
Capital Projects Fund	02800	Capital project	State Treasury	21,874	-	21,874
Total Governmental Cash with State General Fund				<u>\$ 21,898,383</u>	<u>\$ 135,786</u>	<u>\$ 22,034,169</u>

* Reported in General Fund 18900

State of New Mexico Economic Development Department

MEMORANDA OF UNDERSTANDING

Year Ended June 30, 2014

Responsible Party	Description	Term
City of Clovis	MOU between EDD and Clovis MainStreet for revitalization	Estimated 2015
City of Corrales	MOU between EDD and Corrales MainStreet for revitalization	Estimated 2013
City of Las Vegas	MOU between EDD and Las Vegas MainStreet for revitalization	Estimated 2014
City of Las Vegas	MOU between EDD and Las Vegas MainStreet for revitalization	Estimated 2015
City of Roswell	MOU between EDD and Roswell MainStreet for revitalization	Estimated 2015
City of Silver City	MOU between EDD and Silver City MainStreet for revitalization	Estimated 2014
City of Silver City	MOU between EDD and Silver City MainStreet for revitalization	Estimated 2015
City of Truth or Consequences	MOU between EDD and Truth or Consequences MainStreet for revitalization	Estimated 2014
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 Service 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.	3/31/10-6/30/14
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.	2/2/10-project completion
City of Espanola, NM	MOU between the City of Espanola dn the Department to develop an essential infrastructure.	6/4/09-6/30/14
NM Smart Grid Initiative Galvin Electricity Initiative	MOU between Galvin Elecric and the Department to optimaize the development of a Smart Grid in New Mexico.	6/30/11-12/31/14
Albuquerque Downtown Action Team	MOU between EDD and ABQ Downtown Action Team for revitalization.	Unavailable
Artesia	MOU between EDD and Artesia MainStreet for revitalization.	Estimated 2015
Belen	MOU between EDD and Belen MainStreet for revitalization.	Estimated 2015

SCHEDULE 13

Total Amount of Project	Amount Applicable to EDD	Amount Department Contributed During FY14	Amount Paid Up-to-Date	Audit Responsibility	Agency Reporting Revenue & Expense
\$ 137,500	\$ -	\$ -	\$ -	City of Clovis	City of Clovis
15	-	-	119,985	City of Corrales	City of Corrales
-	-	-	90,000	City of Las Vegas	City of Las Vegas
75,000	-	-	-	City of Las Vegas	City of Las Vegas
10,000	-	-	-	City of Roswell	City of Roswell
-	-	-	175,000	City of Silver City	City of Silver City
51,000	-	-	86,500	City of Silver City	City of Silver City
20,578	-	-	49,422	City of Truth or Consequences	City of Truth or Consequences
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 Albuquerque, NM	City of Albuquerque, 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
-	-	-	-	Artesia	Artesia
50,000	-	-	-	Belen	Belen



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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 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, 2014 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 combining funds of the general fund and capital projects funds, presented as supplementary information and have issued our report thereon dated December 3, 2014.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control that we consider to be a significant deficiency as described in the accompanying schedule of findings and responses as items 2014-001.

Compliance and Other Matters

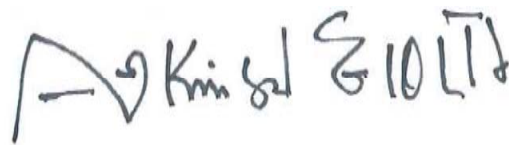
As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 2014-002 and 2014-003.

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 blue ink, appearing to read "Atkinson & Co. Ltd.", with a stylized logo to the left consisting of a triangle and a circle.

Atkinson & Co. Ltd.

Albuquerque, New Mexico
December 3, 2014

SUMMARY OF AUDIT FINDINGS

June 30, 2014

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

INTERNAL CONTROL OVER FINANCIAL REPORTING

Material weaknesses identified? No

Significant deficiencies identified not considered
to be material weaknesses? Yes

COMPLIANCE AND OTHER MATTERS

Noncompliance material to the financial statements noted? No

STATUS OF PRIOR YEAR FINDINGS

2013-001 Prior Period Restatement (Material Weakness) - Resolved

2013-002 Lack of Effective Reconciliation Procedures over Severance Tax Bonds Funding and
Capital Appropriations (Material Weakness) - Resolved

2013-003 Lack of Due from State General Fund and Accrued Liabilities Reconciliation
(Material Weakness) - Resolved

2013-004 Budget Overages (Compliance) - Resolved

2013-005 Late Submission of Auditor Recommendation and Contract (Compliance) - Resolved

CURRENT YEAR FINDINGS

Financial Statement Findings Required by *Government Auditing Standards*

2014-001 Lack of Effective Year-End Accrual Procedures (Significant Deficiency)

State Audit Rule Compliance Findings

2014-002 Use of State Issued Gas Cards (Control and Compliance Deficiency)

2014-003 Misclassification of Employees as Independent Contractors
(Control and Compliance Deficiency)

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

June 30, 2014

CURRENT YEAR AUDIT FINDINGS

Financial Statement Findings Required by *Government Auditing Standards*

2014-001 Lack of Effective Year-End Accrual Procedures (Significant Deficiency)

Condition

The Department did not submit cost-reimbursement billings to the state in a timely manner. Also, four vouchers totaling \$81,832 relating to the JTIP program were not properly accrued and paid until two months after year-end and three vouchers totaling \$45,652 relating to MainStreet program were not properly accrued and paid until two months after year-end.

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.

Cause

Lack of failure of controls surrounding proper monitoring and timely accrual of accounts payable and related cost-reimbursement receivables. Program managers did not submit approved reimbursement requests received from subrecipients to the Administrative Service Department in a timely manner to have voucher packages submitted to DFA before year-end cut off. This also caused a delay in drawdown request for cost-reimbursement billings for severance tax bond projects.

Effect

Accounts payable and expense related to JTIP and capital projects programs and related revenues and receivables were understated as of June 30, 2014. In addition severance tax bond proceeds were submitted well after year-end resulting in cash of \$45,652 being received more than 60 days after year-end.

Recommendation

The Department should create a written policy requiring all program managers to submit all billings and expenses relating to the current fiscal year-end in a timely manner that will allow the Administrative Service Department to have adequate time to submit to DFA and create draw down request before year-end to ensure cut off.

Management's Response and Corrective Action Plan

Management agrees with this finding. The Administrative Services Division will work with Department Divisions to devise a plan requiring all program managers to follow the year-end policy and submit all billings and expenses relating to the current fiscal year end in a timely manner.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES - CONTINUED

June 30, 2014

CURRENT YEAR AUDIT FINDINGS - CONTINUED

State Audit Rule Compliance Findings

2014-002 Use of State Issued Gas Cards (Control and Compliance Deficiency)

Condition

During our audit, we noted the following:

- 5 out of 10 instances vehicle mileage log did not match Wex fuel bill.
- 5 out of 10 instances vehicle mileage log did not tie to monthly submitted report to DOT for a selected vehicle.
- 4 out of 10 instances where vehicle was not located on monthly report submitted to DOT when there was recorded activity in vehicle mileage log for selected vehicle.

Criteria

NMAC 1.5.3.1 through 1.5.3.14 establish statutory requirements for state vehicle usage. Internal Revenue regulations 1.61-21 establishes documentation requirements for fringe benefits reporting for personal usage of government vehicles.

Cause

There is no formal policy and procedures in place to have effective internal control and monitoring over gas card usage.

Effect

The Department is not in compliance with certain requirements for vehicle usage and is unable to completely monitor and analyze the propriety of personal usage of all vehicles. This increases the risk of fraudulent gas card usage.

Recommendation

The Department should create a written gas card policy that complies with the required state guidelines established by the New Mexico Administrative Code and is standardized for all employees of the Department. There should be centralized monitoring of compliance with policies including the filing and maintaining of supporting documents for vehicle and gas card usage.

Management's Response and Corrective Action Plan

Management agrees with this finding. Immediately upon its knowledge of this deficiency, the Administrative Services Division began developing a Gas Card Policy that will comply with the required state guidelines established by the NM Administrative Code and will be standardized for all employees of the Department.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES - CONTINUED

June 30, 2014

CURRENT YEAR AUDIT FINDINGS - CONTINUED

State Audit Rule Compliance Findings - Continued

**2014-003 Misclassification of Employees as Independent Contractors
(Control and Compliance Deficiency)**

Condition

During our audit, we noted three MainStreet personnel were misclassified as independent contractors when their duties functioned as an employee under the control of the Department.

Criteria

NMAC 2.2.2.10b requires personal service contractors (1099 vendors) to meet the IRS tests to qualify as contract labor found in Chapter 2 of the IRS Publication 15-A. The Department could also be in violation of sections 10-11-8(C) and 22-11-25 NMSA 1978.

Cause

The Department is held to the number of FTEs appropriated by the state legislature. The Department's MainStreet Program is required by the National MainStreet Center (the Center) to deliver professional services with the skill and expertise level to meet the Center's requirements of MainStreet revitalization statewide. Due to budget constraints, the Department did not have the number of FTEs available to perform these services; thus, MainStreet Program services were procured through professional services contracts. Also, no policy or procedures were in place in the Department to perform IRS tests to ensure full compliance.

Effect

The Department is not in compliance with state audit rule and state statutes. The Department could be liable for the employee's share of FICA and employer FICA match on the contract payments. The Department could also be required to have excess retirement payments refunded to Public Employees Retirement Association (PERA).

Recommendation

The Department should establish a contractor policy that complies with the required state guidelines established by the New Mexico Administrative Code. There should be procedures in place to perform IRS tests before a contractor is hired to ensure full compliance.

Management's Response and Corrective Action Plan

Management will develop and establish procedures to perform IRS testing before awarding vendor contracts and to assure that required state guidelines established by the NM Administrative Code are strictly adhered to.

EXIT CONFERENCE

June 30, 2014

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 2, 2014, at the Department's offices in Santa Fe, New Mexico. In attendance were:

ECONOMIC DEVELOPMENT DEPARTMENT

Therese Trujillo
Georgette Chavez
Louis Roybal

ASD Director/CFO
Finance Bureau Chief
Financial Specialist

ATKINSON & CO., LTD.

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

Audit Director
Audit Director
Senior Auditor

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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