

STATE OF NEW MEXICO
DEPARTMENT OF
CULTURAL AFFAIRS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2008

Moss Adams LLP
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STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS

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DEPARTMENT OF CULTURAL AFFAIRS

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STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS

Official Roster

Year Ended June 30, 2008

**Administrative
Officials**

Title

Stuart A. Ashman	Cultural Affairs Cabinet Secretary
Troy Fernandez	Cultural Affairs Deputy Cabinet Secretary
Emilio I. Martinez	Director - Administrative Services Division
Eduardo Diaz	Director - National Hispanic Cultural Center Division
Elena Sweeney	Director - Museum Services/Cultural Affairs Deputy Cabinet Secretary
Spence Lucas	Director - Museum of Natural History Division (Acting)
Loie Fecteau	Director - Arts Division
Susan Oberlander	Director - Library Division
Katherine Slick	Director - Historic Preservation Division
Randall Hayes	Director - NM Space History Museum Division
Mark Santiago	Director - Farm and Ranch Museum Division

Independent Auditors' Report

T 505-830-6200
F 505-830-6282

Stuart A. Ashman, Cabinet Secretary
State of New Mexico
Department of Cultural Affairs
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the budgetary comparisons for the general fund and the aggregate remaining fund information of the State of New Mexico Department of Cultural Affairs (Department) as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements as listed in the accompanying table of contents. We have also audited the financial statements of each of the Department's nonmajor governmental funds and the respective budgetary comparisons presented in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Stuart A. Ashman, Cabinet Secretary
State of New Mexico
Department of Cultural Affairs
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

As discussed in Note 2, 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, 2008, 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.

The financial statements referred to above include only the primary government of the Department, which consists of all funds that comprise the Department's legal entity. The financial statements do not include financial data for the Department's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the Department's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the Department as of June 30, 2008, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2008, and the respective changes in financial position, where applicable, thereof, and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non major governmental fund, and fiduciary funds of the Department as of June 30, 2008, and the respective changes in the financial position thereof and the budgetary comparisons of the non major funds, the capital projects fund and the activities of the general fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

Stuart A. Ashman, Cabinet Secretary
State of New Mexico
Department of Cultural Affairs
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

In accordance with *Government Auditing Standards*, we have also issued a report dated January 26, 2009, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 5 to 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the combining and individual financial statements presented as supplemental information. The accompanying schedules listed as supplemental information in the table of contents are presented for purpose of additional analysis and are not a required part of the basic financial statements. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Not-for-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Moss Adams LLP

Albuquerque, New Mexico
January 26, 2009

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

The Department of Cultural Affairs' (DCA) discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of DCA's financial activity, identify changes in DCA's financial position, identify any material deviations from the financial plan (the approved budget) 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 DCA, we offer readers this narrative overview and analysis of the financial activities of DCA for the year ended June 30, 2008.

Overview of the Financial Statements

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

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental activities are consolidated into one column. DCA has no business-type activity. The focus of the Statement of Net Assets (Unrestricted Net Assets) is designed to be similar to a bottom line for DCA and its governmental activities. Most of DCA's basic services are included in the governmental activities. State appropriations, other state funds and federal grants finance most of these activities. The funds included in Governmental Activities for DCA are the General Operating Fund and Special Revenue Funds.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2008

Fund Financial Statements

Fund financial statements consist of a series of statements that focus on information about the major governmental and enterprise funds. Fund financial statements also report information about a government's fiduciary funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Non-major funds (by category) or fund type are summarized into a single column.

The focus is now on Major Funds, rather than fund types. DCA has six such funds: the general fund, Laws of 2002 Capital Projects; Laws of 2004 Capital Projects; Laws of 2005 Capital Projects; Laws of 2006 Capital Projects; Laws of 2007 Capital Projects.

Governmental Funds - Most of DCA's services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flow in and out; and (2) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view and help the user determine whether there are more or fewer financial resources that can be spent in the near future to finance DCA's programs. Since this information does not include the additional long-term focus of the government-wide statements, reconciliation between the government-wide statements and the fund financial statements is provided for governmental-type activities.

Agency Funds - The fund financial statements also allow the government to address its agency funds. While these funds represent trust responsibilities of the government, these assets are restricted in purpose and do not represent discretionary assets of the government. Therefore, these assets are not presented as part of the government-wide financial statements. With the implementation of GASB #34, agency funds are not included with the governmental-type funds, since these funds are not available to support DCA's programs. DCA's agency fund is the Bartlett Trust Fund.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2008

Budgetary Comparisons

In addition to the MD&A, GASB #34 requires budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget to be presented as required supplementary information. The budgetary comparison schedules should present both the original and the final appropriated budgets for the reporting period as well as the actual inflows, outflows and balances stated on the government's budgetary basis.

As required by the Office of the State Auditor under 2 NMAC 2.2, the Statements of Revenues and Expenditures - Budget and Actual, are also presented. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Governmental Activities

Net Assets: Table A-1 summarizes DCA's net assets for the fiscal year ended June 30, 2008. Total DCA net assets for fiscal year 2008 were \$127,742,127. Unrestricted net assets in governmental activities were \$570,710 at the end of the fiscal year. Restricted net assets, which include capital projects, were \$12,376,839. Net assets increased due to significant capital assets additions.

Table A-1

Statement of Net Assets

As of June 30,

	2008	2007
ASSETS		
Current and other assets	\$ 29,762,114	47,440,206
Capital assets	<u>120,796,495</u>	<u>93,915,155</u>
Total assets	<u>\$150,558,609</u>	<u>141,355,361</u>
 LIABILITIES		
Current liabilities	\$ 16,453,280	27,264,041
Long-term liabilities	<u>6,363,202</u>	<u>6,793,522</u>
Total liabilities	<u>\$ 22,816,482</u>	<u>34,057,563</u>

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2008

	2008	2007
NET ASSETS		
Invested in capital assets, Net of related debt	\$ 114,794,578	86,571,733
Restricted	12,376,839	12,616,414
Unrestricted (deficit)	<u>570,710</u>	<u>8,109,651</u>
Total net assets	<u>\$ 127,742,127</u>	<u>107,297,798</u>

Changes in Net Assets: DCA's change in net assets for fiscal year 2008 was an increase of \$20,444,329 (Table A-1). A significant portion, 56,805,571 of DCA's revenue comes from State general fund appropriations. General fund appropriations increased from 2007, and DCA received general fund capital project appropriations. So although net assets increased overall, it was attributed to net assets invested in capital assets related to the capital projects. Unrestricted net assets actually decreased as a result of budget decreases in operating revenues (see Table A-1). The increases in current and other assets and current liabilities are attributed to funding received for capital projects and other programs that have not been expended as of year end.

Statement of Activities: The Statement of Activities is focused on the cost of various activities that are provided by DCA's general and other revenues. This is intended to summarize and simplify the users' analysis of the cost of services. Table A-2 summarizes DCA's change in net assets for the fiscal year ended June 30, 2008. DCA's change in net assets for fiscal year 2008 was an increase of \$20,444,329. Total revenues decreased from 2007 to 2008. General appropriations and operating grants increased. The total increase in revenues is driven mainly by the increase in capital appropriations. Charges for services also increased, which was caused by fee increases during 2008.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2008

Table A-2

Statement of Activities

Years Ended June 30,

	2008	2007
Revenue		
General appropriation and operating grants	\$ 56,805,571	52,967,936
Other	<u>6,110,278</u>	<u>10,728,679</u>
Total revenue	<u>62,915,849</u>	<u>63,696,615</u>
Expenses		
Program expenses	<u>42,471,520</u>	<u>42,886,998</u>
Increase in net assets	20,444,329	20,809,617
Years ended June 30,		
Net assets, beginning of year	<u>\$ 107,297,798</u>	<u>86,488,181</u>
Net assets, end of year	<u>\$ 127,742,127</u>	<u>107,297,798</u>

General Fund Budgetary Highlights

The New Mexico State Legislature makes annual appropriations to DCA. Amendments to the appropriated budget require approval by the Budget Division of the Department of Finance and Administration, with review by the Legislative Finance Committee.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2008

Over the course of the year, DCA adjusts its budget as authorized in the Appropriations Act. The budget adjustments fall into four categories:

- Supplemental and special appropriations that are reflected in the actual beginning account balances (correcting the estimated amounts in the budget adopted for the fiscal year).
- Capital Improvement Project appropriations that are budgeted during the year based on legislative appropriations.
- Budget adjustment requests made during the fiscal year to allow DCA to utilize funds where needed.
- Budget adjustment requests that increase or decrease other state funds based on actual revenues.

All other changes between the original and final budgets were not significant.

Capital Assets

At the end of fiscal year 2008, DCA had invested a total of \$120,796,495 in governmental-type activities in a variety of capital assets. This amount represents a net increase (including additions and deductions) of \$32,400,844 over last year. The major increases in capital assets during the fiscal year were due to new construction and building improvements.

DCA has numerous ongoing capital projects, in addition to those mentioned above, that include the New Mexico History Museum, Hispanic Education Complex previously mentioned above and ADA compliance throughout the state.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2008

Debt Administration

At June 30, 2008, the Department had total outstanding debt of \$6,991,917. Outstanding debt is backed by the Department's state tax revenues. The Department's total debt decreased by \$351,317 due to principal repayments. The Department incurred no new debt during fiscal year 2008.

Requests for Information

This financial report is designed to provide a general overview of DCA'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, 407 Galisteo Street, Suite 264, Bataan Memorial Bldg., Santa Fe, New Mexico 87501.

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
STATEMENT OF NET ASSETS
As of June 30, 2008

	<u>Governmental Activities</u>
CURRENT ASSETS:	
Interest in General Fund Investment Pool	\$ 26,365,367
Cash at Trustee	527,564
Receivables:	
Local government	23,324
Other	226,572
Due from federal government	1,104,346
Due from other state agencies	1,114,700
Inventory	391,784
Other Assets	<u>8,457</u>
TOTAL CURRENT ASSETS	<u>29,762,114</u>
NON-CURRENT ASSETS:	
Capital assets	161,389,477
Less: accumulated depreciation	<u>(40,592,982)</u>
TOTAL NON-CURRENT ASSETS	<u>120,796,495</u>
TOTAL ASSETS	<u>\$ 150,558,609</u>
CURRENT LIABILITIES:	
Accounts payable	\$ 4,423,477
Accrued payroll	1,256,631
Deferred revenue	7,995,566
Due to other state agencies	34,015
Bank overdrafts	193,852
Due to state general funds	387,295
Due to local governments	2
Current portion of compensated absences payable	1,533,727
Current portion of long-term obligations	<u>628,715</u>
TOTAL CURRENT LIABILITIES	<u>16,453,280</u>
LONG-TERM OBLIGATIONS:	
Non-current portion of long-term obligations	<u>6,363,202</u>
TOTAL LIABILITIES	22,816,482
NET ASSETS:	
Invested in capital assets net of related debt	114,794,578
Restricted for:	
Capital projects	12,376,839
Unrestricted	<u>570,710</u>
TOTAL NET ASSETS	<u>127,742,127</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 150,558,609</u>

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants	Capital Grants	Revenue and Changes in Net Assets Governmental Activities
Governmental Activities					
Museum Services	\$ (24,394,679)	3,009,825	483,427	1,064,062	(19,837,365)
Preservation and Library	(9,612,721)	1,879,930	3,549,638	2,455,991	(1,727,162)
Arts	(2,868,484)	1,064,129	565,900	-	(1,238,455)
Program Support	(5,595,636)	156,394	-	-	(5,439,242)
Total governmental activities	(42,471,520)	6,110,278	4,598,965	3,520,053	(28,242,224)
General Revenues					
General Fund appropriation					34,017,900
Reversion to State General Fund					(110,615)
Transfer - Bond Proceeds Appropriation					10,740,642
Interagency transfers in					4,022,965
Interagency transfers out					(2,050)
Other revenue (loss)					(8,567)
Interest and investment earnings					26,278
Total general revenues					48,686,553
Changes in net assets					20,444,329
Net assets, beginning					107,297,798
Net assets, ending					<u>\$ 127,742,127</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
BALANCE SHEET - GOVERNMENTAL FUNDS
As of June 30, 2008

	ASSETS:					Total	
	19300 General Fund	08200 Capital Projects, Laws 2002	58700 Capital Projects, Laws 2004	26300 Capital Projects, Laws 2007	53000 Capital Projects, Laws 2006		Other Governmental Funds
Investment in General Fund Investment Pool	\$ 4,356,459	5,677,774	1,018,143	3,548,186	6,257,482	5,507,323	26,365,367
Cash in Trustee	-	-	-	-	-	527,564	527,564
Receivables:							
Local government	23,324	-	-	-	-	-	23,324
Other	226,572	-	-	-	-	-	226,572
Due from federal government	1,104,346	-	-	-	-	-	1,104,346
Due from other state agencies	295,160	-	134,348	685,192	-	-	1,114,700
Due from other funds	-	-	233,010	-	-	-	233,010
Inventory	391,784	-	-	-	-	-	391,784
Other assets	6,321	-	-	-	-	2,136	8,457
TOTAL ASSETS	\$ 6,403,966	5,677,774	1,385,501	4,233,378	6,257,482	6,037,023	29,995,124
LIABILITIES:							
Accounts payable	1,713,926	626,254	363,526	1,060,026	597,589	62,156	4,423,477
Accrued payroll	1,256,631	-	-	-	-	-	1,256,631
Deferred revenue	-	5,051,520	1,017,642	461,138	-	1,465,266	7,995,566
Due to other state agencies	29,682	-	4,233	-	-	-	34,015
Due to General Fund Investment Pool	-	-	-	-	-	193,852	193,852
Due to other funds	233,010	-	-	-	-	-	233,010
Due to state general fund	76,280	-	-	-	50,000	261,015	387,295
Due to local governments	-	-	-	-	-	2	2
TOTAL LIABILITIES	3,309,529	5,677,774	1,385,501	1,521,164	647,589	1,982,291	14,522,848
FUND BALANCES:							
Fund balance:							
Reserved for capital projects	-	-	-	2,712,214	5,609,893	4,054,732	12,376,839
Unreserved - undesignated	3,094,437	-	-	-	-	-	3,094,437
TOTAL FUND BALANCES	3,094,437	-	-	2,712,214	5,609,893	4,054,732	15,471,276
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,403,966	5,677,774	1,385,501	4,233,378	6,257,482	6,037,023	29,995,124

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
Year Ended June 30, 2008

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	\$ 15,471,276
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Capital assets	161,389,477
Accumulated depreciation	<u>(40,592,982)</u>
Total capital assets	120,796,495

Long-term and certain other liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term and other liabilities at year end consist of:

Long-term debt	(6,991,917)
Compensated absences payable	<u>(1,533,727)</u>

Net assets of governmental activities (Statement of Net Assets)	<u><u>\$ 127,742,127</u></u>
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See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	19300	08200	58700	26300	53000	Other	Total
	General	Capital	Capital	Capital	Capital	Governmental	
	Fund	Projects, Laws 2002	Projects	Projects, Laws 2007	Projects, Laws 2006	Funds	
REVENUES:							
Grants from other governments	-	-	-	-	-	1,064,062	1,064,062
Miscellaneous	-	-	-	-	-	588	588
Interest	40	-	-	-	-	26,278	26,278
Fees and Services	6,467,368	-	-	-	-	75,713	6,541,081
Sales	-	-	-	-	-	313,753	313,753
Other state funds	921,264	-	-	-	48,994	684,416	1,634,674
Federal grants and contracts	4,227,392	7,583,797	-	-	-	-	11,811,189
Private gifts and grants	410,839	-	-	-	-	-	410,839
TOTAL REVENUES	12,026,903	7,583,797	-	-	48,994	2,162,770	21,822,464
EXPENDITURES:							
Current:							
Personal service and employee benefits	29,434,581	-	-	-	-	227,000	29,661,581
In-state travel	243,543	-	-	-	-	314	243,857
Maintenance and repairs	1,186,030	-	63,876	690,289	370,293	113,585	2,424,073
Supplies	698,084	14,407	128,080	16,447	56,214	6,539	919,591
Contractual services	5,114,693	-	79,875	62,632	86,195	412,115	5,755,510
Operating costs	564,393	-	396	-	369	-	565,158
Other costs	4,843,707	-	84,288	631,510	11,489	200,317	5,761,111
Out-of-state travel	55,043	-	-	-	-	771	55,814
Capital outlay	521,416	7,370,969	5,034,088	8,312,565	2,001,784	7,619,314	30,860,136
Debt service principal payment	-	-	-	-	-	351,505	351,505
Debt service interest payment	-	-	-	-	-	286,540	286,540
TOTAL EXPENDITURES:	42,661,490	7,385,376	5,390,603	9,703,243	2,526,344	9,217,820	76,884,876
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(30,634,587)	198,421	(5,390,603)	(9,703,243)	(2,477,350)	(7,055,050)	(55,062,412)
OTHER FINANCING SOURCES (USES):							
State General Fund appropriations	32,809,900	-	-	1,208,000	-	-	34,017,900
Transfers - Reversions to State General Fund (FY 2008 - \$57,662 FY 2006 - \$50,000, FY 2003 - \$2,953)	(57,662)	(2,953)	-	-	(50,000)	-	(110,615)
Bond proceeds	-	-	5,390,603	548,384	71,429	4,730,226	10,740,642
Transfers from other agencies	212,609	-	-	3,684,000	-	126,356	4,022,965
Transfers to other agencies	(2,050)	-	-	-	-	-	(2,050)
NET OTHER FINANCING SOURCES (USES)	32,965,797	(2,953)	5,390,603	5,440,384	21,429	4,856,582	48,668,842
NET CHANGE IN FUND BALANCES	2,328,210	195,468	-	(4,262,859)	(2,455,921)	(2,198,468)	(6,393,570)
FUND BALANCES, June 30, 2007	766,227	(195,468)	-	6,975,073	8,065,814	6,353,200	21,864,846
FUND BALANCES, June 30, 2008	3,094,437	-	-	2,712,214	5,609,893	4,054,732	15,471,276

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
Year Ended June 30, 2008

Net Changes in Fund Balances - Total Governmental Funds
(State of Revenues, Expenditures, and Changes in Fund Balances) \$ (6,393,570)

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

Long-term debt is not included in the Governmental Funds until paid;
recorded as long-term liabilities in the Statement of Net Assets:

Debt principal payments 351,505

In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The net increase in the liabilities for the year was: (394,946)

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

Capital assets deletions (9,155)

Capital outlay 32,409,999
Depreciation expense (5,519,504)

Excess of capital outlay over depreciation expense 26,890,495

Other - rounding -

Change in net assets of governmental activities (Statement of Activities) \$ 20,444,329

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS - BUDGET AND ACTUAL
As of June 30, 2008

	Budgeted Amount		Actual Amount	Variance Positive (Negative)
	Original	Final		
REVENUES:				
General Fund appropriations	\$ 30,603,900	30,603,900	32,809,900	2,206,000
Other services	3,511,900	3,645,600	7,388,672	3,743,072
Federal grants	4,036,500	4,027,400	4,227,392	199,992
Intra-state transfers	144,000	399,000	-	(399,000)
Miscellaneous	4,500	4,500	-	(4,500)
Private gifts and grants	522,100	543,300	410,839	(132,461)
Other financing sources (uses)	4,138,300	4,488,300	210,559	(4,277,741)
Reversions	-	-	(57,662)	(57,662)
TOTAL REVENUES	\$ 42,961,200	43,712,000	44,989,700	1,277,700
EXPENDITURES:				
Current:				
Personnel services and benefits	\$ 29,904,800	29,925,800	29,434,581	491,219
Contractual services	4,876,700	4,956,500	4,774,084	182,416
Other operating costs	8,179,700	8,829,700	8,452,825	376,875
TOTAL EXPENDITURES	\$ 42,961,200	43,712,000	42,661,490	1,050,510
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET	\$ -	-	2,328,210	<u>227,190</u>
CASH BALANCE CARRYFORWARD	-	-	-	
	\$ -	-	2,328,210	
MULTI-YEAR APPROPRIATIONS				
REVENUES:				
Special appropriations	750,000	750,000	750,000	-
EXPENDITURES:				
Personnel services and benefits	67,000	67,000	-	(67,000)
Contractual services	350,000	350,000	-	(350,000)
Other operating costs	333,000	333,000	-	(333,000)
TOTAL EXPENDITURES	\$ 750,000	750,000	-	(750,000)
Excess of revenues and other financing Sources over expenditures	\$ -	-	750,000	750,000

NOTE: This is the compilation of P536, P537, P539, P540, P761 for a complete budget for Fund 19300.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
STATEMENT OF FIDUCIARY NET ASSETS
As of June 30, 2008

	Historic Preservation Revolving Agency Fund (59300)	Bartlett Trust Fund (61200)	Main Street Revolving Loan Agency Fund (20070)	Total
ASSETS:				
Short-term investments	\$ 332,322	181,798	50,000	564,120
Loans receivable	152,095	-	-	152,095
TOTAL ASSETS	484,417	181,798	50,000	716,215
LIABILITIES:				
Deposits held in custody for others	484,417	181,798	50,000	716,215
TOTAL LIABILITIES	484,417	181,798	50,000	716,215
NET ASSETS	\$ -	-	-	-

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
BARTLETT TRUST FUND (61200)
As of June 30, 2008

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
ASSETS:				
Short-term investments	\$ 171,255	10,543	-	181,798
Loans receivable	2,451	-	(2,451)	-
TOTAL ASSETS	<u>\$ 173,706</u>	<u>10,543</u>	<u>(2,451)</u>	<u>181,798</u>
LIABILITIES:				
Deposits held in custody for others	\$ 173,706	8,092	-	181,798
TOTAL LIABILITIES	<u>\$ 173,706</u>	<u>8,092</u>	<u>-</u>	<u>181,798</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1. NATURE OF ORGANIZATION

The State of New Mexico Department of Cultural Affairs (DCA) was created to consolidate into one office the several cultural affairs divisions of the former education, finance and cultural affairs departments. The DCA administrative head is the Cultural Affairs Officer, appointed by the Governor of the State of New Mexico.

Administrative Services Division - The Administrative Services Division is expected to provide overall administrative support to all other divisions, including coordination of long-term and short-term planning, financial and property control, budget preparation and other clerical services.

Archaeological Studies Division - The Office of Archaeological Studies performs archaeological studies for other governmental organizations that are mandated by laws and regulations to have an archaeological study performed.

Museum of New Mexico Press Division - The Museum of New Mexico Press is used to offer publications that introduce the public to the rich traditions and fascinating peoples of the Southwest and further their understanding in the areas of anthropology, archaeology, ethnology, Southwestern history, fine arts and folk art.

Museum of New Mexico Division - This division is responsible for acquiring, preserving and exhibiting objects of historical, archaeological and ethnological interest and works of fine art, folk art and crafts of ethnological interest to the public. The Museum Division also administers real property acquired for museum use or benefit through purchase, donation or bequest. In cooperation with other agencies, the federal government, private organizations and individuals, the Museum Division establishes the programs of and maintains the Palace of Governors, the Fine Arts Museum, the Museum of International Folk Art and the Museum of Indian Arts and Culture, as well as the Coronado, Jemez, Lincoln, Fort Selden and Fort Sumner State Monuments.

Museum of Natural History Division - This division is responsible for a state museum, located in Albuquerque, New Mexico, which was established to collect, preserve, study and interpret material related to the natural history of the State and to develop and maintain programs of an educational nature for the benefit of the citizens of New Mexico and visitors to the State.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1. NATURE OF ORGANIZATION (CONTINUED)

Arts Division - It is the responsibility of this division for advising and assisting public agencies in planning civic beautification, for fostering appreciation for fine arts, and for making New Mexico more appealing to the world, encouraging creative activity in the arts by residents of the State, attracting other creators in the fine arts field and administering grants-in-aid programs.

Library Division - The collecting and maintaining of educational and informational materials, and acting as the center of reference, research and loan services for the State of New Mexico is the responsibility of this division.

Historic Preservation Division - The Historic Preservation Division is responsible for preparation of long-range plans for the preservation of cultural properties (historic and prehistoric sites and structures) including, but not limited to, acquisition, restoration and protection.

This division also reviews all federally funded or licensed land modifying activities to ensure protection of cultural resources, maintains the State Register of Cultural Properties, nominates significant cultural resources to the National Register of Historic Places, conducts the state and federal tax credit program for restoration of historic structures, coordinates with all levels of government to ensure that cultural resources are considered at all steps of project planning, and provides technical assistance to the public regarding preservation.

NM Space History Museum Division - The Space Center maintains and operates the International Space Hall of Fame in Alamogordo, New Mexico, for the benefit of the people of New Mexico, the nation and the world, as an educational project tracing the path of the conquest of space by man.

Farm and Ranch Heritage Museum Division - The preservation, collection, interpretation and acknowledgment of the history and sciences of farming and ranching and patterns of rural life in New Mexico, and education of the public about this heritage is the responsibility of this division.

Hispanic Cultural Center Division - This division is responsible for developing exhibits and programs displaying Hispanic culture, arts and humanities for the benefit of the public and with particular concern for the interests of the schools of the State. The Center acquires by donation, or other means, collections and related materials appropriate to the Hispanic cultural center, and also performs research to render the collections beneficial to the public.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for DCA have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

In June 1999, the GASB unanimously approved GASB No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This statement provides for the most significant change in financial reporting in over 20 years and is scheduled for a phased implementation based on size of government.

Financial Reporting Entity

For financial reporting purposes, DCA has been defined as a Department of the State of New Mexico. The accompanying financial statements include all funds and agencies over which the Cultural Affairs Officer has oversight responsibilities.

In evaluating how to define the reporting entity for financial reporting purposes, management has considered all potential component units in the reporting entity by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Applying this criteria in prior years, there were six component units:

- 1) International Folk Art Museum
- 2) New Mexico Museum of Natural History Foundation
- 3) Museum of New Mexico Foundation
- 4) National Hispanic Cultural Center Foundation
- 5) International Space Hall of Fame Foundation, Inc.
- 6) New Mexico Farm & Ranch Heritage Foundation, Inc.

For 2008, DCA was notable to obtain adequate information as to whether these entities remain component units. In addition, DCA was not able to obtain financial statements from these entities in order to include them in its financial statements. As a result, they have not been included in the accompanying financial statements as required by accounting principles generally accepted in the United States of America.

Financial statements can be obtained by contacting the unit directly at the following addresses:

International Folk Art Museum
725 Camino Lejo
Santa Fe, NM 87505

New Mexico Museum of Natural History Foundation
1801 Mountain Road NW
Albuquerque, NM 87104

Museum of New Mexico Foundation
116 Lincoln Avenue
Santa Fe, NM 87501

National Hispanic Cultural Center Foundation
1701 4th Street SW
Albuquerque, NM 87102

International Space Hall of Fame Foundation, Inc.
3198 State Road 2001
Alamogordo, NM 88310

New Mexico Farm & Ranch Heritage Foundation, Inc.
4100 Dripping Springs Road
Las Cruces, NM 88011

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

DCA is legally separate and fiscally independent of other state agencies. Although the agency secretary serves at the pleasure of the Governor, that person has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. DCA is a Department of the State of New Mexico.

Basic 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). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. DCA is a single purpose government entity and has no business-type activities. In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis and are reflected on a full accrual, economic resources basis measurement focus, which incorporates long-term assets as well as long-term obligations. Additionally, internal activity has been eliminated at this level of presentation.

The government-wide Statement of Activities reflects both the gross and net cost per functional category that are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation expense on capital assets) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function.

DCA has several divisions, although it reports all operations as one program. Since DCA only has one program, it does not employ indirect cost allocation in the financial statements.

This government-wide focus is more on the sustainability of DCA as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The effect of material interfund activity has been removed from these government-wide statements. As noted below, neither fiduciary funds nor component units that are fiduciary in nature are included in the government-wide financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds of the governmental categories. Non-major funds are summarized into a single column. DCA has six major funds.

The governmental fund statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed more appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how DCA'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, a 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.

DCA's fiduciary funds are presented in the fund financial statements by type. By definition, assets in a fiduciary fund are held for the benefit of a third party and cannot be used to address activities or obligations of the government. These funds are not incorporated into the government-wide statements.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, DCA first uses restricted resources, then unrestricted resources.

The focus is on DCA as a whole and the fund financial statements, including the major individual funds of the governmental category, as well as the fiduciary fund by category.

Basis of Presentation

The financial transactions of DCA 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

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

statements. GASB No. 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined.

DCA uses the following fund types:

Governmental Fund Types

All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

19300 - General Fund - DCA is the general operating fund of the State of New Mexico Department of Cultural Affairs. It is used to account for the general operations of the State of New Mexico Department of Cultural Affairs in carrying out its specific functions. The fund was established under the provisions of the statutes of the State of New Mexico. This is a major fund. This is a non-reverting fund. This fund was established as a non-reverting fund per NMSA 15-5A-7.

Special Revenue Funds - The following special revenue funds, established at the direction of the Department of Finance and Administration, existed at June 30, 2007:

25600 - The Museum Collections Fund is used to account for miscellaneous museum collections. This is a non-reverting fund per the Laws of 2005, Chapter 121, Section 1(A).

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

19400 - The 15% Museum Admissions Fund is used to account for miscellaneous museum collections. This is a non-reverting fund per the Laws of 2005, Chapter 277, Section 7.

Capital Projects Funds - The following capital projects funds, established at the direction of the Department of Finance and Administration, existed at June 30, 2006:

08200 - The Department of Cultural Affairs fiscal year 2002 Capital Projects Fund is used to account for the acquisition of capital assets as outlined by state law. The fund was established by Laws of 2002. This is a major fund. This is a reverting fund, with reauthorization in Laws of 2007, Ch. 341, Sec. 303, Time extension.

26300 - The Department of Cultural Affairs fiscal year 2008 Capital Projects Fund is used to account for the acquisition of capital assets as outlined by state law. The fund was established by Laws of 2007. This is a reverting fund.

47800 - The Department of Cultural Affairs fiscal year 2000 Capital Projects Fund is used to account for the acquisition of capital assets as outlined by state law. The fund was established by Laws of 2000. This is a reverting fund.

53000 - The Department of Cultural Affairs fiscal year 2007 Capital Projects Fund is used to account for the acquisition of capital assets as outlined by state law. The fund was established by Laws of 2006. This is a reverting fund.

69800 - The Department of Cultural Affairs Art in Public Places (AIPP) Fund is used to account for the acquisition of art as outlined by state law. The fund was established by Laws of 1996. This is a non-reverting fund per Arts in Public Places Laws of NMSA 13-4A-1 to 13-4A-11.

64700 - The Department of Cultural Affairs fiscal year 2006 Capital Projects Fund is used to account for the acquisition of capital assets as outlined by state law. The fund was established by Laws of 2005. This is a reverting fund.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

69100 – The Department of Cultural Affairs, Laws of 2003, Chapters 371, 372 and 430 (2004 Capital Projects Fund) is used to account for the acquisition of capital assets as outlined by state law. The fund was established by Laws of 2003. This is a reverting fund.

58700 - The Department of Cultural Affairs fiscal year 2005 Capital Projects Fund is used to account for the acquisition of capital assets as outlined by state law. The fund was established by Laws of 2004. This is a reverting fund.

89900 - The Department of Cultural Affairs fiscal year 2004 Capital Projects Fund is used to account for the acquisition of capital assets as outlined by state law. The fund was established by Laws of 2003. This is a reverting fund.

DCA reports the following major governmental funds:

- 19300 – General Fund
- 08200 – Capital Projects, Laws of 2002
- 58700 – Capital Projects, Laws of 2004
- 53000 – Capital Projects, Laws of 2006
- 64700 – Capital Projects, Laws of 2005
- 26300 – Capital Projects, Laws of 2007

Fiduciary Fund Types

Fiduciary fund types include trust and agency funds, which are used to account for assets held by DCA in the capacity of trustee or agent. Agency funds are used to account for assets held as an agent for other governmental units, individuals and other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

59300 - Historic Preservation Revolving Fund - The revolving fund is available for the museums to use for the purpose of underwriting cost of publications. This is an agency fund. This fund does not receive general fund appropriations and therefore is a non-reverting fund.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

61200 - Bartlett Trust Fund - The Bartlett Trust Fund is a private purpose fund of the State of New Mexico Department of Cultural Affairs. The Bartlett Trust Fund was created for the purpose of accounting for the proceeds totaling \$75,000 from the sale of El Mirado Ranch, which was bequeathed under the provisions of a will. The proceeds were placed with and invested by the State Treasurer as a permanent fund. The proceeds are used for the Museum of International Folk Art. The trust fund was created by the Laws of 1949 and 1951. This fund does not receive general fund appropriations and therefore is a non-reverting fund.

20070 – Main Street Revolving Loan Fund – The Main Street Revolving Loan Fund is created in the state treasury fund and consists of appropriations, loans, gifts, grants, donations and bequests made to the fund. Money in the fund is appropriated to the committee for the purpose of making revolving loans pursuant to the provisions of Main Street Revolving Loan Act. Income from the fund should be credited to the fund, and money in the fund should not revert at the end of the year. It is considered an agency fund.

Non-Current Governmental Assets/Liabilities

Such information is incorporated into the Governmental column in the government-wide Statement of Net Assets.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The Government-wide Financial Statements and the Fiduciary 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 the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, using the economic resources measurement focus and the accrual basis of accounting, incorporating long-term assets and receivables as well as long-term debt and obligations.

Accrual

Revenues are recognized when earned and expenses are recognized when incurred.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Modified Accrual

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

DCA defines the term "available" to include funds received within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Contributions and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Revenues from special appropriations (capital projects) that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Contributions and other monies held by other State and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received if they are not susceptible to accrual.

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are not accrued as current liabilities but as non-current liabilities. Expenditures charged to federal programs are recorded utilizing the cost principles described by the various funding sources.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB No. 33 (as it relates to non-exchange and exchange transactions), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Budgets and Budgetary Accounting

The New Mexico State Legislature makes annual appropriations to DCA, which lapse at fiscal year end but do not revert to the state general fund. Legal compliance is monitored through the establishment of a budget (modified cash-basis) and a financial control system, which permits a budget to actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation unit level. Budgeted appropriation unit amounts may be amended upon approval from the Budget

Division of the State of New Mexico Department of Finance and Administration within the limitations as specified in the General Appropriation Act. The budget amounts shown in the financial statements are both the original appropriation and the final authorized amounts as legally revised during the year.

The budgetary basis differs from the basis of accounting required by GAAP. Significant differences between the budgetary basis and GAAP include the following:

- The budget does not consider reversions or other transfers to or from other agencies.

DCA follows these procedures in establishing the budgetary data reflected in the financial statements:

- No later than September 1, DCA submits to the Legislative Finance Committee (LFC), and the Budget Division of the Department of Finance and Administration (DFA), an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.
- Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of those hearings is incorporated into the State's General Appropriations Act.
- The Act is signed into Law by the Governor of the State of New Mexico within the legally prescribed time limit, at which time the approved budget becomes a legally binding document.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

- Not later than May 1, DCA submits to DFA an annual operating budget by appropriation unit and object code based upon the appropriation made by the Legislature. The DFA-Budget Division reviews and approves the operating budget, which becomes effective on July 1.

All subsequent budgetary adjustments must be approved by the Director of the DFA-Budget Division and LFC.

- Formal budgetary integration is employed as a management control device during the fiscal year for the General and Capital Projects funds. The Trust Funds are not budgeted, as they have no expenditure activity.

The Laws of 2004, Chapter 114, "General Appropriations", established the modified accrual basis of accounting for governmental funds as the budgetary basis of accounting for the State of New Mexico. Encumbrances outstanding at year-end are reported as reservations of fund balance on the balance sheets (in the fund financial statements) and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The capital projects funds are multiple-year appropriations that do not lapse at year-end.

Investments

Investments include deposits on hand with the State Treasurer. All monies are deposited with and monitored by the State Treasurer. Separate financial statements, which disclose collateral pledged to secure these deposits, are issued by the Office of the State Treasurer.

Inventory

Inventory consists primarily of books and other publications and miscellaneous items held for resale. Inventory is valued at cost, using the first-in, first-out (FIFO) method, not to exceed net realizable value. The net realizable value of inventory for books and other publications is estimated by writing down the carrying value of the inventory, after the

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

year of acquisition, by 20% of the purchase cost over five years. Inventory items are considered expenditures when purchased (purchase method). Under the purchase method, the purchases of inventory are recorded as expenditures and at year-end, the balance of inventories is recorded with an offsetting reserve of fund balance in the governmental fund statements.

Federal Grants Receivable (Deferred Revenue)

Various reimbursement procedures are used for federal awards received by DCA. Consequently, timing differences between expenditures and program reimbursements can exist at any time during the fiscal year. Receivable balances at fiscal year-end represent an excess of modified accrual basis expenditures over cash reimbursements received to date. Conversely, deferred revenue balances represent an overdraw of cash (advances) in excess of modified accrual basis expenditures. Generally, receivable or deferred revenue balances caused by differences in the timing of cash reimbursements and expenditures will be reversed or returned to the grantor in the remaining grant period.

Unearned Special Appropriations

DCA received special appropriations for various capital projects. The funds are typically received entirely in the year of the appropriation, but the capital projects may take several years to complete. Special General fund appropriations revenue is recognized in the year appropriated as it is measurable, available and has no eligibility requirements. Severance tax and general obligation bond proceed appropriations are recognized as revenue when the funds are expended as this is when the applicable eligibility requirements are met.

Reservations of Fund Balance

Reservations of fund balances on the governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated, or (2) identify the portion of the fund balance that is not appropriated for future expenditures.

Net Assets

The government-wide fund financial statements utilize a net asset presentation. Net assets are categorized as investment in capital assets (net of related debt), restricted and unrestricted.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Investment in Capital Assets (net of related debt) - is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Assets - are liquid assets (generated from revenues and not bond proceeds), which have third-party (statutory, bond covenant or granting agency) limitations on their use.

Unrestricted Assets - represent unrestricted liquid assets.

DCA allocates expenses to restricted or unrestricted resources based on the budgeted source of funds.

Use of Estimates

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.

NOTE 3. CASH AT TRUSTEE

The cash at trustee was \$527,564 at June 30, 2008. There were no reconciling items. This cash is held in trust by the New Mexico Finance Authority for fund 69100 Capital Projects, Laws of 2003.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 4. INVESTMENT IN GENERAL FUND INVESTMENT POOL

Investment balances at June 30, 2008, consisted of the following:

Deposits with State Treasurer – governmental activities	\$26,365,367
Deposits with State Treasurer – fiduciary balances	<u>564,120</u>
Total investment balance	<u>\$26,929,487</u>

All funds allotted to DCA are held by the New Mexico State Treasurer. Deposits are non-interest bearing. Money deposited by DCA with the State Treasurer is pooled and invested by the State Treasurer. The State Treasurer deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the \$100,000 in insurance coverage provided by federal agencies. Accordingly, the State Treasurer requires that depository financial institutions provide additional collateral for such investments. The collateral generally is in the form of marketable debt securities and is required in amounts ranging from 50% to 102% of the par value of the investment dependent upon the institutions operating results and capital. Collateral for the fiscal account is required in amounts equal to 50% of the average investment balance. Separate financial statements of the State Treasurer indicate collateral categories of risk and market value of purchased investments. All collateral is held in third-party safekeeping.

NOTE 5. CAPITAL ASSETS

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market values as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The State's capitalization policy (i.e., the dollar value above which asset acquisitions are added to the capital accounts) is \$5,000. However, all capital outlay purchases may not necessarily be capitalized.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value. DCA utilizes IRS Publication 946 to estimate the useful lives on capital assets as follows:

Office Furniture, Fixtures and Equipment - 5 years
Data Processing Equipment - 3 years
Library & Museum - 5 years
Software - 3 years
Equipment - 5 years
Vehicles - 5 years
Buildings - 30 years

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5. CAPITAL ASSETS (CONTINUED)

DCA utilizes facilities and buildings that are owned by the Property Control Division of the State of New Mexico General Services Department. These assets and the related depreciation expense are not included in the accompanying financial statements. GASB No. 34 requires the recording and depreciation of infrastructure assets. Infrastructure assets include roads, bridges, traffic signals, etc. DCA does not own any infrastructure assets. The Department does not have any software to capitalize at year end.

YEAR ENDED JUNE 30, 2007

	Balance 7/1/2007	Additions	Deletions	Balance 6/30/2008
Land	\$ 4,366,247	-	-	4,366,247
Building & structures	113,331,318	29,028,411	-	142,359,729
Furniture & fixtures	2,547,275	40,564	-	2,587,839
Livestock	23,025	-	-	23,025
Information and technology	4,901,679	12,795	(9,155)	4,905,319
Machinery & equipment	2,455,588	12,505	-	2,468,093
Vehicles	1,195,174	215,723	-	1,410,897
Library & museum	168,327	3,100,000	-	3,268,327
Total depreciable assets	124,622,386	32,409,999	(9,155)	157,023,230
Total assets	128,988,633	32,409,999	(9,155)	161,389,477
Accumulated depreciation:				
Building & structures	(27,455,323)	(3,718,879)	-	(31,174,203)
Furniture & fixtures	(1,414,366)	(267,450)	-	(1,681,816)
Livestock	(20,025)	(1,000)	-	(21,025)
Information and technology	(3,861,503)	(473,758)	-	(4,335,261)
Machinery & equipment	(1,526,397)	(264,443)	-	(1,790,840)
Vehicles	(763,084)	(144,112)	-	(907,196)
Library & museum	(32,780)	(649,863)	-	(682,643)
Total	(35,073,479)	(5,519,504)	-	(40,592,982)
Capital assets, net	\$ 93,915,155	26,890,495	(9,155)	120,796,495

Depreciation expense for fiscal year 2008 is \$ 5,519,504

STATE OF NEW MEXICO
 DEPARTMENT OF CULTURAL AFFAIRS
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008

NOTE 6. COMPENSATED ABSENCES

Qualified employees are entitled to accumulate annual leave as follows: a maximum of 240 hours of such accumulated annual leave may be carried forward into the beginning of the calendar year, and any excess is lost. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours.

Qualified employees are entitled to accumulate sick leave at the rate of 3.69 hours per pay period. Employees who have accumulated 600 hours of unused sick leave are entitled to be paid for additional unused sick leave at a rate equal to 50 percent of their hourly rate of pay for up to 120 hours of sick leave. Payment for unused sick leave may be made only once per fiscal year on either the payday immediately following the first full pay period in January or the first full pay period in July. Immediately prior to retirement from the 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. No accrual has been made for sick leave balance below 600 hours or above 1,000 hours.

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

Balance June 30, 2007	Increase	Decrease	Balance June 30, 2008	Current Portion
<u>\$ 1,138,781</u>	<u>1,951,251</u>	<u>1,556,305</u>	<u>1,533,727</u>	<u>1,533,727</u>

All of the compensated absences balance has been paid by the General Fund in prior years.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 7. RETIREMENT PLANS (STATE PERA AND ERA)

Plan Description

Substantially all of DCA'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, 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. A copy of that report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

Funding Policy

Plan members are required to contribute from 4.78% to 7.42% (depending upon the plan division) of their gross salary. DCA is required to contribute 16.59% to 25.72% (depending upon the division) of the gross covered salary. The contribution requirements of plan members and DCA are established under Chapter 10 Article 11 NMSA 1978.

The requirements may be amended by acts of the legislature. DCA's contributions to PERA for the years ending June 30, 2008, 2007 and 2006 were \$3,325,368, \$3,055,209 and \$2,868,760, respectively, equal to the amount of the required contribution for each year.

NOTE 8. RETIREE HEALTH CARE

The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have been retired from certain public service in New Mexico. The New Mexico Retiree Health Care Authority (NMRHCA) is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, dependents and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or the out-of-pocket payments of eligible retirees.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 8. RETIREE HEALTH CARE (CONTINUED)

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers consist of institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority, state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Educational Retirements Act, the Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act or the Magistrate Retirement Act.

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 Retiree Health Care Act on the person's behalf; unless that person retires before the employer's NMRHCA effective date, in which 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; or (2) retirees defined by the Act who retired prior to July 1, 1990, and former legislators who served at least two years.

Each participating employer makes contributions to the fund in the amount of 1.3% of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution equal to .65% of the employee's annual salary. Each participating retiree pays a monthly premium for the medical plus basic life plan and an additional \$5 if eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator. Participants may also enroll in optional plans of coverage.

Contributions from participating employers and employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including terminations of employment or termination of the participating employer's operation or participation in the Retiree Health Care Act. The employer, employee and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee and retiree), and net expenditures for the fiscal year. The report also included the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd. NE, Suite 104, Albuquerque, New Mexico 87107.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 8. RETIREE HEALTH CARE (CONTINUED)

For the fiscal years ended June 30, 2008 and 2007, DCA remitted \$164,996 and \$176,937, respectively, in employer contributions \$84,998 and \$88,468, respectively, in employee contributions to the Retiree Health Care Authority.

NOTE 9. CONTINGENT LIABILITIES (CLAIMS AND JUDGMENTS)

DCA, 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.

DCA is involved in several pending legal matters. Although the possibility of loss exists in some of these cases, any potential loss would likely be covered either by insurance (through Risk Management Division) or by future legislative appropriations. Therefore, no liability has been recorded in the financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 10. DUE FROM AND DUE TO OTHER STATE AGENCIES

		Department Of Cultural Affairs – 19300	General Services Division	Department of Finance & Administration
Due to		Due From		
Department of Cultural Affairs – 19300	\$	-	29,682	-
Department of Cultural Affairs – 58700		-	-	4,333
	\$	-	29,682	4,333

Due to		Due From		
Department of Tourism	\$	4,766	-	-
Department of Transportation		246,592	-	-
Energy, Mineral & Natural Resources Div.		11,745	-	-
State Land Office – 53900		11,849	-	-
General Services Division		20,040	-	-
Capital Projects, Laws 2007 – 26300		-	-	685,192
Capital Projects Laws of 2004 – 58700		-	-	134,348
Game and Fish		168	-	-
	\$	295,160	-	819,540

NOTE 11. INTERFUND BALANCES

Due to	Due From
	General Fund - 19300
Capital Projects – 58700	\$ <u>233,010</u>

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 12. REVOLVING LOAN FUND

Revolving funds appropriated or transferred to DCA are described as follows:

The Revolving Loan Fund of the State of New Mexico Department is used to account for funds of the Revolving Loan Fund of the Department of Cultural Affairs. The fund was administratively established.

Historic preservation loans are made by participation in such loans with financial institutions of the National Trust for Historic Preservation to the extent of 25% to 50% of the amounts loaned to the owners. Loan repayment periods may not exceed five years, must be payable in installments not less often than annually, with interest on the unpaid balance at a rate not greater than the yield, at the time of the loan approval, on U.S. Treasury bills with a maturity of 365 days, plus 3.5%. Loans must be collateralized.

NOTE 13. CAPITAL PROJECTS LIFE TO DATE ACTIVITY

Details of capital projects financed by special appropriations are shown in a supplementary schedule. Details of capital projects financed by severance tax bonds are shown in another supplementary schedule. These schedules show life to date budgetary data (appropriations and actual expenditures).

The Laws of 1986, Chapter 11, Art in Public Places Act, requires that certain agencies allocate one percent or \$200,000, whichever is less, of a public building's construction cost, or of any renovation exceeding \$100,000, to be expended for the acquisition and the installation of works of art for the new building to be constructed or the building in which the major renovation is to occur (corrections facilities are not entitled to receive any benefit from the one percent assessment). The funds for art are to be allocated to and expended by DCA.

NOTE 14. AFFILIATED FOUNDATIONS

The museums of DCA are affiliated with foundations organized principally for the purpose of promoting and supporting educational and scientific programs of the museums. This commitment by the foundations, which are constituted under the tax exempt provisions of Internal Revenue Code Sec 501(c)(3), may also arise from operating agreements with the foundations.

For the most part, the expenses of the foundations are to third parties; however, direct payments are received by DCA for shop, restaurant, office and similar facilities operated or occupied by the foundations and for the reimbursement of salaries and fringe benefits of museum personnel for their participation, periodically, in various programs underwritten by the foundations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 15. COMMITMENTS AND CONTINGENCIES

DCA receives funds from federal and state agencies and re-grants certain portions of these funds to sub-grantees. These funds are subject to audit and adjustment by the granting agencies. Any disallowed amounts resulting from the audits would be required to be refunded. DCA believes that the amounts, if any, that would be refunded by it would not have a material effect on the DCA's financial position at June 30, 2008.

DCA has entered into various leases for land, office equipment and office space as of June 30, 2003. All lease agreements can be cancelled if the budgeted lease payments are not approved. No future liability then exists unless budget payment amounts continue to be approved.

DCA is involved in several pending legal matters related to employment and injury claims. The risk of loss in most of these cases is deemed to be "slight to moderate" by the Department's counsel and management, and the potential loss would not materially affect the financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 16. LONG-TERM DEBT

At June 30, 2008, long-term debt in fund 69100 consisted of the following:

State Museum Tax Revenue Bonds. Bonds issued by the New Mexico Finance Authority (NMFA), original amount (\$5,760,000), payable from the State Building Bonding Fund, for the purpose of renovating and maintaining current structures and developing permanent exhibits at state museums and monuments, such as a fire suppression system at the New Mexico Museum of Space History in Alamogordo, repairs to the New Mexico Museum of Natural History and Science in Albuquerque, repairs to state monuments, repairs to the Museum of International Folk Art in Santa Fe, repairs at the Museum of Indian Arts and Culture in Santa Fe, repairs to the Museum of Fine Arts in Santa Fe, repairs to the Palace of Governors in Santa Fe, erosion control at the New Mexico Farm and Ranch Heritage Museum in Las Cruces, exhibition development at the Camino Real International Heritage Center in Socorro County, exhibition development at the New Mexico Farm and Ranch Heritage Museum in Dona Ana County, and exhibition development at the New Mexico Museum of Natural History and Sciences in Albuquerque. The interest rate ranges from .62% the first year up to 4.18% in 2023, the year of maturity. There is a .25% semi-annual administration fee as well.

\$ 5,107,775

Public Project Revolving Fund Loan. Loan issued by the NMFA, original amount (\$2,350,000), to the Department of Cultural Affairs in order to design, remodel, renovate, rehabilitate or improve state museums and monuments. The loan is secured by a pledge of governmental gross receipts revenue, which is one percent of the GRT. Any GRT revenue distributed to the Department remaining after the payment of debt service may be used by the Department for museum capital improvement projects. The interest rate ranges from .62% the first year up to 4.18% in 2023, the year of maturity. There is a .25% semi-annual administration fee as well.

\$ 1,884,142

\$ 6,991,917

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 16. LONG-TERM DEBT (CONTINUED)

DCA has the following long-term debt as of June 30:

	Balance <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2008</u>	Amounts Due Within <u>One Year</u>
Loan Payable	\$ 7,343,422	-	351,317	6,991,917	628,715

Long-term debt maturities are as follows for fiscal years ending June 30:

	NMFA Loan <u>Agreement</u>	NMFA State Museum Tax <u>Revenue Bonds</u>	<u>Total</u>
2009	\$ 169,752	458,963	628,715
2010	169,758	458,980	628,738
2011	169,765	458,999	628,762
2012	169,773	459,021	628,773
2013	169,783	459,044	628,715
2014 – 2018	849,066	2,295,640	3,144,707
2019 – 2023	849,401	2,296,548	3,145,949
	<u>2,547,298</u>	<u>6,887,195</u>	<u>9,434,493</u>
Less interest/admin. fee	663,156	1,779,420	2,456,149
	<u>1,884,142</u>	<u>5,107,775</u>	<u>6,991,917</u>
Less current portion	169,752	458,963	628,715
	<u>\$ 1,714,390</u>	<u>4,648,812</u>	<u>6,363,202</u>

The General Fund (19300) has typically been used to liquidate other long-term liabilities such as compensated absences.

NOTE 17. FUND DEFICITS

The Capital Projects, Laws of 2003 (89900) fund has a deficit balance of \$193,852, DCA plans to remedy this with future funding.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 18. INTERAGENCY TRANSFERS

	DFA 52901	DFA 52900	DFA 62500	Environ. Dept. 65500	Dept. of Transp. 20100	Dept. of Indian Affairs 80500	Dept. of Indian Affairs 04800	University of New Mexico	New Mexico State University	General Services Dept. 036400	Total
Dept. of Cultural Affairs -											
26300	\$ 1,094,000	2,500,000	-	90,000	-	-	-	-	-	-	3,684,000
Dept. of Cultural Affairs -											
19300	-	-	40,000	-	82,608	40,000	50,000	-	-	-	212,608
Dept. of Cultural Affairs -											
19300	-	-	-	-	-	-	-	71,481	31,500	23,375	126,356
Total	\$ 1,094,000	2,500,000	40,000	90,000	82,608	40,000	50,000	71,481	31,500	23,375	4,022,964

Other financing uses

Transfer out
Dept. of Cultural
Affairs - 19300

Transfer in
Dept. of Finance
& Admin. - 62500

\$ 2,050

STATE OF NEW MEXICO
 DEPARTMENT OF CULTURAL AFFAIRS
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008

NOTE 19. JOINT POWERS AGREEMENT DISCLOSURE

The Department was party to the following Joint Powers Agreements during the fiscal year:

Contractor	Scope of Work	Responsible Party	Total Amount of Contract	Beginning Date	Ending Date	Audit Responsibility	Agency Where Revenue/Expenditures are Reported
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Zuni Pueblo/DCA	Purchase Work of Art under Art in Public Places	DCA	N/A	10/26/2005	Indefinite	DCA	DCA
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STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS
As of June 30, 2008

ASSETS:	59100 Capital Projects, Special 2003	19400 15% Museum Admission Funds	47800 Capital Projects, Laws 2000	69100 Capital Projects, Laws 2003	69800 Arts in Public Places Fund	89900 Capital Projects, Laws 2003	25600 Museum Collections Fund	64700 Capital Projects, Laws 2005	Total Nonmajor Funds
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Short-term investments	257,637	201,499	3,378	694,231	2,638,526	-	177,846	1,534,206	5,507,323
Cash at trustee	-	-	-	527,564	-	-	-	-	527,564
Receivables:	-	-	-	-	-	-	-	-	-
Local government	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Due from federal government	-	-	-	-	-	-	-	-	-
Due from other agencies	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	231	-	-	-	1,905	2,136
TOTAL ASSETS	\$ 257,637	201,499	3,378	1,222,026	2,638,526	-	177,846	1,536,111	6,037,023
LIABILITIES:									
Accounts payable	-	-	-	-	5,475	-	1,244	55,437	62,156
Accrued payroll	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	1,465,266	-	-	-	1,465,266
Due to other state agencies	-	-	-	-	-	-	-	-	-
Due to General Fund Investment Pool	-	-	-	-	-	193,852	-	-	193,852
Due to other funds	-	-	-	-	-	-	-	-	-
Due to state general fund	257,637	-	3,378	-	-	-	-	-	261,015
Due to local governments	-	-	-	-	2	-	-	-	2
TOTAL LIABILITIES	257,637	-	3,378	-	1,470,743	193,852	1,244	55,437	1,982,291
FUND BALANCES:									
Fund balance (deficit):	-	-	-	-	-	-	-	-	-
Unreserved - undesignated (deficit)	-	201,499	-	1,222,026	1,167,783	(193,852)	176,602	1,480,674	4,054,732
Reserved for capital projects	-	-	-	-	-	-	-	-	-
TOTAL FUND BALANCES	-	201,499	-	1,222,026	1,167,783	(193,852)	176,602	1,480,674	4,054,732
TOTAL LIABILITIES AND FUND BALANCES	\$ 257,637	201,499	3,378	1,222,026	2,638,526	-	177,846	1,536,111	6,037,023

See Notes to Financial Statements.

STATE OF NEW MEXICO
 DEPARTMENT OF CULTURAL AFFAIRS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES -
 NON-MAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2008

REVENUES:	59100 Capital Projects Special 2003	19400 15% Museum Admissions Fund	47800 Capital Projects, Laws 2000	69100 Capital Projects, Laws 2003	69800 Arts in Public Places	89900 Capital Projects, Laws 2003	25600 Museum Collections Fund	64700 Capital Projects, Laws 2005	Total Nonmajor Funds
\$ Grants from other governments	-	-	-	-	1,064,062	-	-	-	1,064,062
Miscellaneous	-	-	-	555	-	-	-	-	555
Interest income	-	-	-	17,775	-	-	-	-	17,775
Fees and Services	-	73,713	-	-	-	-	8,463	-	82,176
Sales	-	314,753	-	-	-	-	-	-	314,753
Other state funds	-	-	-	610,666	-	53,750	-	20,000	694,416
Federal grants	-	-	-	-	-	-	-	-	-
Private gifts and grants	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	-	387,466	-	629,029	1,064,062	53,750	8,463	20,000	2,162,770
EXPENDITURES:									
Current									
Personnel services and employee benefits	-	227,000	-	-	-	-	-	-	227,000
In-state travel	-	-	-	-	-	-	-	314	314
Maintenance and repairs	-	-	-	-	-	-	-	113,585	113,585
Supplies	-	-	-	-	-	-	-	6,339	6,339
Contractual services	-	-	-	-	-	-	-	412,115	412,115
Operating costs	-	-	-	-	-	-	-	-	-
Other costs	-	-	-	-	195,983	450	-	3,882	200,317
Out-of-state travel	-	-	-	-	-	-	-	771	771
Capital outlay	-	-	-	351,506	141,472	4,851,034	25,000	2,601,308	7,619,314
Debt service principal payment	-	-	-	286,540	-	-	-	-	286,540
Debt service interest payment	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES:	-	227,000	-	638,045	337,457	4,851,484	25,000	3,138,834	9,217,820
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	160,466	-	(9,016)	726,605	(4,797,734)	(16,537)	(3,118,834)	(7,055,050)
OTHER FINANCING SOURCES (USES):									
State General Fund appropriations	-	-	-	-	-	-	-	-	-
Reversions	-	-	-	-	-	-	-	-	-
Bond Proceeds	-	-	-	-	-	4,603,852	-	126,344	4,730,196
Operating transfers in/out	-	-	-	-	-	-	-	-	-
Interagency transfers in	-	-	-	-	-	-	-	-	-
Interagency transfers out	-	-	-	-	126,356	-	-	-	126,356
NET OTHER FINANCING SOURCES (USES)	-	-	-	-	126,356	4,603,852	-	126,344	4,856,552
NET CHANGE IN FUND BALANCES	-	160,466	-	(9,016)	\$52,961	(193,852)	(16,537)	(2,992,490)	(2,198,468)
FUND BALANCES, June 30, 2007	-	41,033	-	1,231,042	314,872	-	193,139	4,473,164	6,251,200
FUND BALANCES (DEFICIT), June 30, 2008	\$	201,499	-	1,222,026	1,167,783	(193,852)	176,602	1,480,674	4,054,132

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
COMBINING GENERAL FUND - MUSEUM SERVICES (p536)
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
General Fund appropriations	\$ 20,226,600	20,226,600	20,226,600	-
Other Services	3,488,400	3,513,900	2,854,474	(659,426)
Federal grants	73,000	73,000	104,226	31,226
Intra-state transfers	-	205,000	-	(205,000)
Miscellaneous	4,500	4,500	155,351	150,851
Private gifts and grants	487,100	508,300	379,201	(129,099)
Other financing sources	959,700	959,700	754,600	(205,100)
Reversions	-	-	-	-
TOTAL REVENUES	\$ 25,239,300	25,491,000	24,474,452	(1,016,548)
EXPENDITURES:				
Current:				
Personnel services and benefits	\$ 18,165,500	18,186,500	18,122,494	64,006
Contractual services	1,042,500	1,148,500	1,117,818	30,682
Other operating costs	6,031,300	6,156,000	5,994,685	161,315
TOTAL EXPENDITURES AND OTHER FINANCING SOURCES (USES)	\$ 25,239,300	25,491,000	25,234,997	256,003
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET	\$ -	-	\$ (760,545)	(1,272,551)
CASH BALANCE CARRYFORWARD	-	-		
	\$ -	-		
EXCESS REVENUE OVER EXPENSE			\$ (760,545)	

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
COMBINING GENERAL FUND - PRESERVATION, ARTS AND
LIBRARY SERVICES (P537)
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
General Fund appropriations	\$ 937,600	937,600	937,600	-
Other Services	-	-	1,877,183	1,877,183
Federal grants	1,217,000	1,217,000	1,926,324	709,324
Intra-state transfers	144,000	194,000	1,774,330	1,580,330
Miscellaneous	-	-	-	-
Private gifts and grants	-	-	-	-
Other financing sources	2,823,600	3,173,600	2,391	(3,171,209)
Reversions	-	-	(57,662)	(57,662)
TOTAL REVENUES	\$ 5,122,200	5,522,200	6,460,166	937,966
EXPENDITURES:				
Current:				
Personnel services and benefits	\$ 4,226,400	4,226,400	3,987,947	238,453
Contractual services	428,000	553,000	496,116	56,884
Other operating costs	467,800	742,800	742,286	514
TOTAL EXPENDITURES AND OTHER FINANCING SOURCES (USES)	\$ 5,122,200	5,522,200	5,226,349	295,851
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET	\$ -	-	\$ 1,233,817	642,115
CASH BALANCE CARRYFORWARD	-	-		
	\$ -	-		
EXCESS REVENUE OVER EXPENSE			\$ 1,233,817	

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
COMBINING GENERAL FUND - LIBRARY SERVICES (P539)
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
General Fund appropriations	\$ 3,745,200	3,745,200	3,745,200	-
Other Services	-	-	2,747	2,747
Federal grants	2,078,200	2,078,200	1,590,942	(487,258)
Intra-state transfers	-	-	-	-
Miscellaneous	-	-	133	133
Private gifts and grants	35,000	35,000	32,372	(2,628)
Other financing sources	75,000	75,000	75,000	-
Reversions	-	-	-	-
TOTAL REVENUES	\$ 5,933,400	5,933,400	5,446,394	(487,006)
EXPENDITURES:				
Current:				
Personnel services and benefits	\$ 3,093,700	3,093,700	3,005,248	88,452
Contractual services	1,462,200	1,462,200	1,384,211	77,989
Other operating costs	1,377,500	1,377,500	1,276,892	100,608
TOTAL EXPENDITURES AND OTHER FINANCING SOURCES (USES)	\$ 5,933,400	5,933,400	5,666,351	267,049
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET	\$ -	-	\$ (219,957)	(754,055)
CASH BALANCE CARRYFORWARD	-	-		
	\$ -	-		
EXCESS REVENUE OVER EXPENSE			\$ (219,957)	

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
COMBINING GENERAL FUND - PROGRAM SUPPORT (P540)
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
General Fund appropriations	\$ 3,720,800	3,720,800	3,720,800	-
Other Services	23,500	122,600	156,394	33,794
Federal grants	93,300	93,300	-	(93,300)
Intra-state transfers	-	-	-	-
Miscellaneous	-	-	558	558
Private gifts and grants	-	-	-	-
Other financing sources	250,000	250,000	252,050	2,050
Reversions	-	-	-	-
TOTAL REVENUES	\$ 4,087,600	4,186,700	4,129,802	(56,898)
EXPENDITURES:				
Current:				
Personnel services and benefits	\$ 3,528,400	3,528,400	3,481,049	47,351
Contractual services	388,600	400,600	388,207	12,393
Other operating costs	170,600	257,700	175,638	82,062
TOTAL EXPENDITURES AND OTHER FINANCING SOURCES (USES)	\$ 4,087,600	4,186,700	4,044,894	141,806
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET	\$ -	-	\$ 84,908	(198,704)
CASH BALANCE CARRYFORWARD	-	-		
	\$ -	-		
EXCESS REVENUE OVER EXPENSE			\$ 84,908	

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
COMBINING GENERAL FUND - ARTS PROGRAM (P761)
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
General Fund appropriations	\$ 1,973,700	1,973,700	1,973,700	-
Other Services	-	-	67	67
Federal grants	575,000	575,000	565,900	(9,100)
Intra-state transfers	-	-	-	-
Miscellaneous	-	-	-	-
Private gifts and grants	-	-	-	-
Other financing sources	30,000	30,000	30,000	-
Reversions	-	-	-	-
TOTAL REVENUES	\$ 2,578,700	2,578,700	2,569,667	(9,033)
EXPENDITURES:				
Current:				
Personnel services and benefits	\$ 890,800	890,800	837,843	52,957
Contractual services	1,555,400	1,392,200	1,387,732	4,468
Other operating costs	132,500	295,700	263,324	32,376
TOTAL EXPENDITURES AND OTHER FINANCING SOURCES (USES)	2,578,700	2,578,700	2,488,899	89,801
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET	-	-	\$ 80,768	(98,834)
CASH BALANCE CARRYFORWARD	-	-		
	\$ -	-		
EXCESS REVENUE OVER EXPENSE			\$ 80,768	

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL
Year Ended June 30, 2008

<u>FUND 08200 - CAPITAL PROJECTS, LAWS OF 2002</u>				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES:				
State General Fund appropriations	\$ -	-	-	-
Other state funds	-	-	-	-
Federal grants	7,583,797	7,583,797	7,583,797	-
Private gifts and grants	-	-	-	-
Bond proceeds	-	-	-	-
Reversions	-	-	(2,953)	(2,953)
TOTAL REVENUES	\$ 7,583,797	7,583,797	7,580,844	(2,953)
EXPENDITURES - current:				
Personnel services and benefits	-	-	-	-
Other operating costs	7,583,797	7,583,797	7,385,376	198,421
Capital outlay	-	-	-	-
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ 7,583,797	7,583,797	7,385,376	198,421
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET	\$ -	-	\$ 195,468	(201,374)
CASH BALANCE CARRYFORWARD	-	-		
	\$ -	-		
EXCESS REVENUE OVER EXPENSE			\$ 195,468	

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2008

	FUND 58700 - CAPITAL PROJECTS, LAWS OF 2004			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES:				
Fund balance Bond proceeds	\$ 2,265,773	2,265,773	5,390,603	3,124,830
TOTAL REVENUES	\$ 2,265,773	2,265,773	5,390,603	3,124,830
EXPENDITURES - current:				
Contractual services	\$ 79,875	79,875	79,875	-
Other operating costs	276,640	276,640	276,640	-
Capital outlay	5,034,088	5,034,088	5,034,088	-
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ 5,390,603	5,390,603	5,390,603	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET	\$ -	-	-	3,124,830

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2008

FUND 26300 - CAPITAL PROJECTS, LAWS OF 2007				
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES:				
Fund balance	\$ 4,262,859	4,262,859	-	-
State General Fund appropriations	1,208,000	1,208,000	1,208,000	-
Other state funds	-	-	-	-
Federal grants	-	-	-	-
Other financing sources	3,684,000	3,684,000	3,684,000	-
Bond proceeds	548,384	548,384	548,384	-
TOTAL REVENUES	\$ 9,703,243	9,703,243	5,440,384	-
EXPENDITURES - current:				
Personnel services and benefits	\$ -	-	-	-
Contractual services	62,632	62,632	62,632	-
Other operating costs	9,640,611	9,640,611	9,640,611	-
Other financing uses	-	-	-	-
Operating transfers	-	-	-	-
TOTAL EXPENDITURES	\$ 9,703,243	9,703,243	9,703,243	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET				
	\$ -	-	(4,262,859)	-

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2008

FUND 53000 - CAPITAL PROJECTS, LAWS OF 2006				
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES:				
Fund balance	\$ 7,184,915	7,184,915	-	(7,184,915)
State General Fund appropriations	-	-	-	-
Other state funds	-	-	48,994	48,994
Federal grants	-	-	-	-
Private gifts and grants	-	-	-	-
Bond proceeds	71,429	71,429	71,429	-
Reversions	-	-	(50,000)	(50,000)
Other financing sources	-	-	-	-
TOTAL REVENUES	\$ 7,256,344	7,256,344	70,423	(7,185,921)
EXPENDITURES - current:				
Personnel services and benefits	\$ -	-	-	-
Contractual services	86,195	86,195	86,195	-
Capital outlay	2,001,784	2,001,784	2,001,784	-
Other operating costs	463,365	463,365	438,365	25,000
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ 2,551,344	2,551,344	2,526,344	25,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET				
	\$ 4,705,000	4,705,000	(2,455,921)	(7,210,921)

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2008

FUND 19400 - 15% STATE MUSEUM ADMISSIONS				
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES:				
State General Fund appropriations	\$ -	-	-	-
Admissions	413,100	413,100	387,466	(25,634)
Federal grants	-	-	-	-
Private gifts and grants	-	-	-	-
Bond proceeds	-	-	-	-
Building rental or lease	-	-	-	-
TOTAL REVENUES	\$ 413,100	413,100	387,466	(25,634)
EXPENDITURES - current:				
Personnel services and benefits	\$ 413,100	413,100	227,000	186,100
Contractual services	-	-	-	-
Other operating costs	-	-	-	-
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ 413,100	413,100	227,000	186,100
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET	\$ -	-	160,466	(211,734)

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2008

	FUND 69100 - CAPITAL PROJECTS, LAWS OF 2003			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES:				
Fund balance	\$ 697,306	697,306	-	(697,306)
Other state funds	-	-	629,029	629,029
Other financing sources	-	-	-	-
TOTAL REVENUES	\$ 697,306	697,306	629,029	(68,277)
EXPENDITURES - current:				
Contractual services	\$ -	-	-	-
Other costs	-	-	-	-
Capital outlay	-	-	-	-
Debt service payments	697,306	697,306	638,045	59,261
TOTAL EXPENDITURES	\$ 697,306	697,306	638,045	59,261
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET	\$ -	-	(9,016)	(127,538)

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2008

FUND 69800 - 1% ART IN PUBLIC PLACES				
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES:				
Fund balance	\$ -	-	-	-
Bond Proceeds	-	-	-	-
Other state funds	-	-	-	-
Federal grants	-	-	-	-
Other financing sources (uses)	3,535,938	3,535,938	1,190,418	(2,345,520)
Cash balance rebudgeted	-	-	-	-
TOTAL REVENUES	\$ 3,535,938	3,535,938	1,190,418	(2,345,520)
EXPENDITURES - current:				
Personnel services and benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other costs	1,554,145	1,554,145	337,457	1,216,688
Capital outlay	1,981,793	1,981,793	-	1,981,793
Other financing sources (uses)	-	-	-	-
TOTAL EXPENDITURES	\$ 3,535,938	3,535,938	337,457	3,198,481
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET				
	\$ -	-	852,961	(5,544,001)

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2008

	FUND 89900 - CAPITAL PROJECTS, LAWS OF 2003			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES:				
Fund balance	\$ 247,602	247,602	-	(247,602)
Bond Proceeds	4,603,882	4,603,882	4,603,882	-
Other state funds	-	-	53,750	53,750
Federal grants	-	-	-	-
Other financing sources (uses)	-	-	-	-
Cash balance rebudgeted	-	-	-	-
TOTAL REVENUES	\$ 4,851,484	4,851,484	4,657,632	(193,852)
EXPENDITURES - current:				
Capital outlay	-	-	-	-
Contractual services	-	-	-	-
Other costs	\$ 4,851,484	4,851,484	4,851,484	-
Other financing sources (uses)	-	-	-	-
TOTAL EXPENDITURES	\$ 4,851,484	4,851,484	4,851,484	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET	\$ -	-	(193,852)	(193,852)

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2008

	FUND 25600 - MUSEUM COLLECTIONS FUND			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES:				
Fund Balance	\$ -	-	-	-
Other state funds	169,500	169,500	8,463	(161,037)
Federal grants	-	-	-	-
Private gifts and grants	-	-	-	-
Bond proceeds	-	-	-	-
Other revenue	-	-	-	-
TOTAL REVENUES	\$ 169,500	169,500	8,463	(161,037)
EXPENDITURES - current:				
Personnel services and benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other operating costs	169,500	169,500	25,000	144,500
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ 169,500	169,500	25,000	144,500
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET	\$ -	-	(16,537)	(305,537)

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
STATEMENT OF REVENUES AND EXPENDITURES -
MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2008

	FUND 64700 - CAPITAL PROJECTS, LAWS OF 2005			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Fund balance	\$ 3,057,490	3,057,490	-	(3,057,490)
General Fund appropriations	-	-	-	-
Bond Proceeds	126,344	126,344	126,344	-
Other	-	-	-	-
Other state funds	-	-	20,000	20,000
Federal grants	-	-	-	-
Other financing sources	-	-	-	-
Cash balance rebudgeted	-	-	-	-
TOTAL REVENUES	\$ 3,183,834	3,183,834	146,344	(3,037,490)
EXPENDITURES - current:				
Personnel services and benefits	\$ -	-	-	-
Contractual services	412,115	412,115	412,115	-
Capital outlay	2,601,808	2,601,808	2,601,808	-
Other costs	124,911	124,911	124,911	-
Other financing sources (uses)	-	-	-	-
TOTAL EXPENDITURES	\$ 3,138,834	3,138,834	3,138,834	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (PRIOR YEAR CASH BALANCE REQUIRED TO BALANCE BUDGET	\$ 45,000	45,000	(2,992,490)	(3,037,490)

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SUPPLEMENTAL SCHEDULE OF INVESTMENTS AT STATE TREASURER
As of June 30, 2008

<u>Name of Depository</u>	<u>Account Name</u>	<u>Fund Type</u>	<u>Type of Account</u>	<u>Interest Bearing</u>	<u>Reconciled Balance at June 30, 2008</u>
<u>General Fund</u>					
State Treasurer	General Operating Account (Fund 19300)	General	State Treasurer	No	\$ 4,356,459
<u>Special Revenue</u>					
State Treasurer	Museum Admissions Fund (Fund 19400)	Special Revenue	State Treasurer	No	201,499
State Treasurer	Museum Collections Fund (Fund 25600)	Special Revenue	State Treasurer	No	177,846
					<u>379,345</u>
<u>Capital Projects Fund</u>					
State Treasurer	Capital Projects, Laws 2006 (Fund 64700)	Capital Projects	State Treasurer	No	1,534,206
State Treasurer	Arts in Public Places Fund (Fund 69800)	Capital Projects	State Treasurer	No	2,638,526
State Treasurer	Capital Projects, Laws 2006 (Fund 53000)	Capital Projects	State Treasurer	No	6,257,482
State Treasurer	Capital Projects, Laws 2007 (Fund 26300)	Capital Projects	State Treasurer	No	3,548,186
State Treasurer	Capital Projects, Laws 2000 (Fund 47800)	Capital Projects	State Treasurer	No	3,378
State Treasurer	Capital Projects, Special 2003 (Fund 59100)	Capital Projects	State Treasurer	No	257,637
State Treasurer	Capital Projects, Laws 2003 (Fund 69100)	Capital Projects	State Treasurer	No	694,231
State Treasurer	Capital Projects, Laws 2003 (Fund 89900)	Capital Projects	State Treasurer	No	-
State Treasurer	Capital Projects, Laws 2004 (Fund 58700)	Capital Projects	State Treasurer	No	1,018,143
State Treasurer	Capital Projects, Laws 2002 (Fund 08200)	Capital Projects	State Treasurer	No	5,677,774
					<u>21,629,563</u>
					<u>26,365,367</u>
<u>Fiduciary Funds</u>					
State Treasurer	Bartlett Trust Fund (Fund 61200)	Nonexpend. Trust	State Treasurer	Yes	181,798
State Treasurer	Historic Preservation Revolving Loan Fund (Fund 59300)	Agency	State Treasurer	No	332,322
State Treasurer	Main Street Revolving Loan Fund (Fund 20070)	Agency	State Treasurer		50,000
					<u>564,120</u>
Total Investment in General					<u>\$ 26,929,487</u>
<u>Due to State General Fund Investment Pool</u>					
State Treasurer	Capital Projects, Laws 2003 (Fund 58700)	Capital Projects	State Treasurer		<u>193,852</u>

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF GENERAL FUND - SPECIAL APPROPRIATIONS
As of June 30, 2008

	Original Appropriations <u>June 30, 2008</u>	Expenditures to Date <u>June 30, 2008</u>
<u>Laws of 2007 Ch. 28, 21,</u>		
American Indian Arts	\$ 40,000	40,000
Historic Pres. Loan	100,000	-
Galisteo Basin	85,000	83,090
Children's Music Comp.	25,000	25,000
Nat'l Hispanic Cult. Passes	100,000	96,548
Cultural Outreach in Bernalillo	100,000	-
Native American Film	25,000	25,000
Symphony Orchestra	106,000	106,000
Main Street Loan	50,000	-
Native American Reburial	50,000	16,153
Operational Expenses Bos. Redondo	50,000	46,444
Grants Aid Program Northern Lib.	320,000	320,000
Annual Border Book Festival	50,000	50,000
Child. Mus. Outreach Program	45,000	45,000
Summer Ballet Festival	65,000	65,000
SF Intern't'l Folk Art Market	50,000	50,000
Child. Art & Edu. Program	50,000	50,000
Native Amer. Trad & Contemp.	75,000	75,000
Media Industries Program	100,000	97,962
Expansion NM Film Museum	140,000	140,000
Operational Expenses Fine Arts	80,000	80,000
Restore Music Programs	75,000	75,000
	<hr/>	<hr/>
Total General Fund	\$ 1,781,000	1,486,197
	<hr/> <hr/>	<hr/> <hr/>

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF CAPITAL PROJECT FUNDS - SEVERANCE TAX AND GENERAL OBLIGATION BONDS
As of June 30, 2008

	Original Appropriations	Balance at June 30, 2007	Expenditures Year Ended June 30, 2008	Balance at June 30, 2008
Severance Tax Bonds				
<u>Laws of 2003, Chapter 429</u>				
National Hispanic Cultural Center Education Building Plan	\$ 150,000	-	-	-
New Mexico History Museum	5,000,000	4,678,138	4,678,138	-
<u>Laws of 2004, Chapter 126</u>				
New Mexico Farm & Ranch Museum Construction	50,000	50,000	50,000	-
Museum of Natural History Science Exh	35,000	227	34,773	-
National Hispanic Cultural Center Roy Disney Project	25,000	-	-	-
National Hispanic Cultural Center Roy Disney Project	125,000	-	-	-
National Hispanic Cultural Center Education Complex	50,000	50,000	46,580	3,420
Education Complex	170,000	168,300	168,300	-
Education Complex	30,000	30,000	30,000	-
Education Complex	25,000	25,000	25,000	-
Education Complex	50,000	50,000	50,000	-
Education Complex	75,000	75,000	75,000	-
Education Complex	25,000	25,000	25,000	-
<u>Laws of 2005, Chapter 347</u>				
National Hispanic Cultural Center Improvements	1,000,000	990,000	990,000	-
Ft. Selden Restoration Equipment	40,000	-	-	-
Lincoln Historic Courthouse Heating	100,000	78,356	77,229	1,127
Lincoln St. Monument Renovations	110,000	109,623	94,336	15,287
Santa Fe Mus Hill Pathway Improv	75,000	75,000	73,336	1,664
Santa Fe Children's Museum Greenhouse	50,000	50,000	48,229	1,771
National Hispanic Cultural Center Education Building	300,000	297,000	297,000	-
Stewart L. Udall Center Landscape	50,000	594	594	-
<u>Laws of 2006, Chapter 111</u>				
New Mexico Museum of Natural History & Science	250,000	247,500	370	247,130
New Mexico Natural History Education Facility	50,000	50,000	-	50,000
Hispanic Education Complex	150,000	150,000	-	150,000
Farm and Ranch Exhibits & Improvements	50,000	50,000	50,000	-
Space History Renovation	103,000	103,000	21,059	81,941
<u>Laws of 2007 Chapter 42</u>				
National Hispanic Cultural Center Education Building Construction	250,000	250,000	23,545	226,455
Farm and Ranch Outdoor Exhibits	1,000,000	1,000,000	373,564	626,436
Museum & Monuments Renovations	2,200,000	2,200,000	1,247,765	952,235
General Obligation Bonds				
<u>Laws of 2004, Chapter 117, GOB</u>				
New Mexico Library Supplemental Library acquisitions	5,832,000	1,261,228	1,261,226	2
New Mexico Library Books & Equip	324,000	64,631	55,886	8,745
<u>Laws of 2006, Chapter 111, GOB</u>				
Public Library Supplemental Library Resource Acquisitions	3,000,000	3,000,000	563,258	2,436,742
Total Severance Tax Bonds	\$ 20,744,000	15,128,597	10,360,188	4,768,409

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
As of June 30, 2008

Agency Fund 59300

	Balance 6/30/2007	Additions	Deletions	Balance 6/30/2008
ASSETS:				
Investment in General Fund Investment Pool	\$ 278,259	54,063	-	332,322
Loans receivable	200,954	-	(48,859)	152,095
TOTAL ASSETS	\$ 479,213	54,063	(48,859)	484,417
LIABILITIES:				
Deposits held in custody for others	\$ 479,213	5,204	-	484,417
TOTAL LIABILITIES	\$ 479,213	5,204	-	484,417

Agency Fund 20070

ASSETS:				
Investment in General Fund Investment Pool	\$ -	50,000	-	50,000
TOTAL ASSETS	\$ -	50,000	-	50,000
LIABILITIES:				
Deposits held in custody for others	\$ -	50,000	-	50,000
TOTAL LIABILITIES	\$ -	50,000	-	50,000

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
As of June 30, 2008

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
U.S. Department of the Interior:		
National Park Service		
Historic Preservation Survey & Planning Grant FY 07	15.904	\$ 426,933
Bureau of Land Management Monuments P.L.94-579, Sec 307(b)	15.XXX	<u>7,583,797</u>
Total U.S. Department of the Interior		<u>8,010,730</u>
U.S. Department of Education		
Library Services and Technology Act (LSTA)	45.310	1,587,474
National Endowment for the Arts NEA Partnership Grant #07-6100-2027	45.025	<u>537,271</u>
Total U.S. Department of Education		<u>2,124,745</u>
Total Federal Expenditures		<u><u>\$ 10,135,475</u></u>

Notes:

The above schedule was prepared on the accrual basis of accounting.

DCA did not provide any funds to subrecipients, did not receive any non-cash assistance, had no additional insurance in effect during the year, and had no outstanding loans or loan guarantees at year-end.

**Report on Internal Control Over Financial
Reporting and on Compliance and on Other Matters
Based on an Audit of Financial
Statements Performed in Accordance With
*Government Auditing Standards***

Stuart A. Ashman, Cabinet Secretary
State of New Mexico
Department of Cultural Affairs
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, each major fund, including budgetary comparisons for the general fund and the aggregate remaining fund information of the State of New Mexico Department of Cultural Affairs (Department) as of and for the year ended June 30, 2008, and have issued our report thereon dated January 26, 2009. We have also audited the financial statements of each of the Department's nonmajor governmental funds, and the respective budgetary comparisons, presented as supplementary information in the combining and individual fund financial statements as of and for the year ended June 30, 2008. 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. Other auditors audited the financial statements of the discretely presented component units as described in our report on the Department's financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Stuart A. Ashman, Cabinet Secretary
State of New Mexico
Department of Cultural Affairs
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 04-02, 06-05, 08-01, 08-02 and 08-03 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 04-02, 06-05 and 08-02 to be a material weakness.

Stuart A. Ashman, Cabinet Secretary
State of New Mexico
Department of Cultural Affairs
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

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 what are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 06-02 and 06-05.

The Department's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the Department, the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, federal awarding and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico
January 26, 2009

**Independent Auditors' Report on Compliance
With Requirements Applicable to Each Major
Program and Internal Control Over Compliance
in Accordance With OMB Circular A-133**

Stuart A. Ashman, Cabinet Secretary
State of New Mexico
Department of Cultural Affairs
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

Compliance

We have audited the compliance of the State of New Mexico Department of Cultural Affairs (Department) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

Stuart A. Ashman, Cabinet Secretary
State of New Mexico
Department of Cultural Affairs
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

As described in items 07-05, 07-06, 07-07, 08-04, 08-06, 08-08, 08-09, 08-10 and 08-14 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding allowable costs, cash management, reporting matching and subrecipient monitoring that are applicable to its Arts Partnership and Historic Preservation Fund Grants-In-Aid programs. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

Stuart A. Ashman, Cabinet Secretary
State of New Mexico
Department of Cultural Affairs
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-05, 07-06, 07-07, 07-08, 08-04, 08-05, 08-06, 08-07, 08-08, 08-09, 08-10, 08-11, 08-12, 08-13, 08-14 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the Department's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 07-06, 08-04, 08-08, 08-09 to be a material weakness.

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the Department, the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and federal awarding and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico
January 26, 2009

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2008

04-02	Capital Assets Additions and Deletions	Repeated/Modified
04-05	Timeliness of Audit Report	Resolved
05-02	Late Submission Data Collection Form	Resolved
06-02	Receipts	Repeated/Modified
06-05	Component Units—Exemption	Repeated/Modified
07-01	Reconciliation of Agency Interest in the State Investment Pool	Resolved
07-02	Lack of Adequate Management Reporting	Resolved
07-03	Journal Entries	Resolved
07-04	Cash Disbursements	Resolved
07-05	Activities/Costs Allowed	Repeated/Modified
07-06	Cash Management	Repeated/Modified
07-07	Reporting Deficiencies	Repeated/Modified
07-08	Davis Bacon Monitoring	Repeated/Modified

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(s) identified that are not considered to be material weakness(es)? X Yes None Reported

Non-compliance material to financial statements noted? X Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant deficiency(s) identified that are not considered to be material weakness(es) X Yes None reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 501(a) of Circular A-133? X Yes No

Identification of Major Program

CFDA Number	Name of Federal Program or Cluster
15.904	MNM Grant National Park Service
45.025	National Endowment for the Arts
15.xxx	New Mexico History Museum

Dollar threshold used to distinguish between type A and type B programs \$ 304,064

Auditee qualified as low-risk auditee? Yes X No

NEW MEXICO DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

B. FINANCIAL STATEMENT AUDIT - FINDINGS

**04-02 Capital Assets – Lack of Adequate Tracking System –
Material Weakness and Compliance**

CONDITION

Department of Cultural Affairs did not maintain a system or properly account for additions, maintenance, and disposals of their capital assets. In addition, no physical inventory of capital assets was conducted for the audit period. As a result, the Department cannot reconcile its capital asset listing to a physical inventory.

CRITERIA

Section 12-6-10 NMSA 1978, 2.20.1.8 NMAC states, agencies should implement systematic and well-documented methods for accounting for their capital assets and to conduct a physical inventory of \$5,000 or more for items under their control.

Section 13-6-1 (B) NMSA 1978, states "The governing authority shall, as a prerequisite to the disposition of any items of tangible personal property: (1) designate a committee of at least three officials of the governing authority to approve and oversee the disposition; and (2) give notification at least thirty days prior to its action making the deletion by sending a copy of its official finding and the proposed disposition of the property to the state auditor ... duly sworn and subscribed under oath by each member of the authority approving the action."

EFFECT

DCA is not in compliance with Sections 12-6-10, 13-6-1(B) NMSA 1978, and 2.20.1.8 NMAC. Thus, there is an increased risk that the loss or theft of capital assets would be undetected. There is also a risk that fixed assets and expenditures could be materially misstated on the financial statements.

CAUSE

The fixed asset coordinator position has been vacant for 10 months and no one has taken over and filled in the duties that should be performed by this position.

RECOMMENDATION

We recommend that existing policies and procedures surrounding tracking and managing of fixed assets be implemented and followed. Expenditures surrounding fixed assets should be tracked and reviewed on a monthly basis for all transactions including acquisitions, depreciation, and disposition, and for items that need to be capitalized. Bi-annual physical inventory should be performed for DCA fixed assets.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

B. FINANCIAL STATEMENT AUDIT – FINDINGS (CONTINUED)

04-02 Capital Assets – Lack of Adequate Tracking System (Continued)

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to correct the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

B. FINANCIAL STATEMENT AUDIT – FINDINGS (CONTINUED)

**06-02 Cash Receipts Deposit –
Compliance**

CONDITION

Eighteen cash receipts were selected randomly and tested. Three of the eighteen cash receipts tested were not deposited within twenty-four hours. Details of those three instances are as follows:

1. Money was received on 05/05/08; deposit was made 05/07/08
2. Money was received on 08/06/07; deposit was made 08/09/07
3. Money was received on 07/30/07; deposit was made 08/07/07

CRITERIA

According to State Statute 6-10-2 NMSA 1978, all money received must be deposited within twenty-four hours of receipt.

CAUSE

Employees who normally do the deposits were absent or unable to complete the deposits timely.

EFFECT

There is the increased risk of loss or theft of cash receipts.

RECOMMENDATION

All money received should be deposited within 24 hours. The agency should consider streamlining the depositing process, providing additional training and guidelines and creating a monitoring function to ensure that the agency complies with these requirements.

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

B. FINANCIAL STATEMENT AUDIT – FINDINGS (CONTINUED)

**06-05 Component Units Exclusion
Material Weakness and Compliance**

CONDITION

DCA's museums have six affiliated Foundation which in prior years were determined to be component units in accordance with accounting standards generally accepted in the United States of America. The DCA's component units were not audited by the same auditor who audited the DCA as of June 30, 2008. The DCA requested, but did not obtain an exemption for this requirement from the Office of the State Auditor. In addition, the DCA was not able to obtain the financial statements or verify the Foundations remained component units. Finally, the audits of the Foundations were not conducted in accordance with the State Auditor Rule.

CRITERIA

Section 2.2.2.10. A (1)(c) NMAC requires that the agency use the same auditor to audit component units as is auditing the agency or that an exemption from this requirement be obtained from the Office of the State Auditor.

Section 2.2.2.10. A (1)(a) requires component units to be included in the scope of the audit.

CAUSE

Since the Foundations are separate legal entities, the DCA was not able to require the component units to use the same auditor nor was it able to comply with State Auditor Rule.

EFFECT

The DCA is not in compliance with this state regulation and this could impact its ability to obtain funding. In addition, DCA is not able to monitor the activities of the Foundations and include their information in its audit.

RECOMMENDATION

We recommend that the DCA work with the Office of the State Auditor and the Foundations to determine which are in fact component units and to require them to comply with the State Audit Rule in the future.

MANAGEMENT RESPONSE

DCA accepts and will implement the recommendation for future years.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

B. FINANCIAL STATEMENT AUDIT – FINDINGS (CONTINUED)

08-01 Cash Receipts Internal Controls
Significant Deficiency

CONDITION

During our inquiry and walkthrough of the cash receipts process, we noted that there is lack of segregation of duties. The Accounts Receivable Accountant/Auditor prepares the deposit slip, records the deposit into the general ledger, and reconciles the bank statement to the general ledger. Also, a deposit log is completed by the receptionist when cash is received, but the deposit log is not reconciled to the general ledger.

CRITERIA

A good internal control structure, dictates that there should be appropriate segregation of duties over the cash receipts process.

CAUSE

DCA has limited staffing and has not developed accounting policies requiring adequate segregation of duties.

EFFECT

There is the increased risk of loss or theft of cash receipts.

RECOMMENDATION

We recommend that DCA designate responsibility of preparing deposit slip and posting cash receipt to two different individuals. We recommend that management reconcile the deposit log and bank statement to the general ledger.

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

B. FINANCIAL STATEMENT AUDIT – FINDINGS (CONTINUED)

**08-2 Financial Close & Reporting
Material Weakness**

CONDITION

The financial closing and reporting process is not well established and documented, including the identification and updating of internal and external financial reporting requirements and deadlines; the methodology, format, and frequency of required analyses; roles and responsibilities; changes and analyses of financial information and requirements. This includes a process to periodically reconcile balance sheet accounts to the supporting detail

CRITERIA

Sound internal controls include procedures to ensure financial closing and reporting process are complete and lead to accurate and timely financial reporting.

CAUSE

DCA has not had adequate resources to develop well-established policies and procedures over financial close and reporting. This has been caused primarily by delays in the completion of previous audits along with limited staffing

EFFECT

There is an increased risk of error or fraud in the financial records.

RECOMMENDATION

We recommend that DCA develop policies and procedures to outline the requirements, timelines and responsibilities over the financial control and reporting process.

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

B. FINANCIAL STATEMENT AUDIT – FINDINGS (CONTINUED)

**08-03 Annual Leave Tracking
Significant Deficiency**

CONDITION

During our inquiry and walkthrough of the payroll cycle, we noted that DCA's annual leave policy is not being followed consistently among the divisions. Divisions are not following this policy but rather. Employees are requesting a verbal approval from their supervisor instead of formally requesting annual leave through their electronic timesheet.

CRITERIA

DCA's policies and procedures state that any type of leave that is approved and taken must be documented on the employee's bi-weekly timesheet and reported on a Leave Request Form. This policy was effective on July 1, 1998 and has not been updated since then. Annual leave should be requested and approved in the electronic timesheet.

CAUSE

There is a lack of monitoring over the payroll process to ensure compliance with DCS policies.

EFFECT

If employees do not request annual leave and do not include the leave taken in the timesheet, this can lead to misstatement of compensated absences.

RECOMMENDATION

We recommend that DCA follow its policy where a formal request for annual leave is done through the use of a physical document. The employee can forward the request to the supervisor for approval or disapproval. Approved leave requests should be given to the division timekeeper to track annual leave taken for each pay period. The timekeeper can then review the timesheets at the end of each pay period and notify the employee and supervisor if annual leave was not appropriately entered into the timesheet.

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS

07-05 Allowable Costs - HPD

Federal Programs:

Historic Preservation Fund Grants-In-Aid, CFDA #15.904 (Historic Preservation Division) Grant Period: October 1, 2006 through September 30, 2008 and October 1, 2007 through September 30, 2009.

CONDITION

During our Allowability of Costs testwork for Historic Preservation Division it was noted the Administrative Costs did not have adequate supporting documentation.

CRITERIA

Under Section 102 (e) of the NHPA, the total direct administrative costs and any State indirect costs charged for carrying out State projects may not exceed 25% of the aggregate costs.

QUESTIONED COSTS

None

CAUSE

DCA lacks adequate monitoring over the controls for managing federal grants and contracts. Each division that administers federal programs within the agency operates within its own subsystem and has not developed adequate controls.

EFFECT

Historical Preservation Division is not in compliance with the applicable laws and regulations set forth in the grant agreement. This may impact future funding.

RECOMMENDATION

We recommend that DCA implement a centralized, streamlined system for the administration of federal grants. A centralized system will allow DCA to take advantage of common internal controls and will allow for the development of expertise in the area of federal contract monitoring and reporting. Alternatively, DCA should develop a monitoring system to ensure compliance with federal requirements throughout the year.

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS

07-06 Cash Management – HPD
Material Weakness and Compliance

Federal Programs

Historic Preservation Fund Grants-In-Aid, CFDA #15.904 (Historic Preservation Division) Grant Period: October 1, 2006 through September 30, 2008 and October 1, 2007 through September 30, 2009

CONDITION

Cash draw-downs amounts reported to the Federal Government Form SF269a for Historic Preservation Division, were not adequately supported by the general ledger detail of expenditures.

CRITERIA

OMB Circular A-102 Section 2b and c require grant recipients to have an adequate financial management system and to accurately report drawdown requests on the Standard Form SF-269.

QUESTIONED COSTS

None

CAUSE

DCA lacks adequate monitoring over the controls for managing federal grants and contracts. Each division that administers federal programs within the agency operates within its own subsystem. In addition, the agency experienced multiple problems with the implementation of the SHARE system.

EFFECT

The State of New Mexico is not reimbursed timely for federal expenditures made which could cause a loss of investment revenue; non-compliance with the provisions of federal grant agreements which could impact future funding.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

07-06 Cash Management – HPD (Continued)

Material Weakness and Compliance

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

RECOMMENDATION

We recommend that DCA implement a centralized, streamlined system for the administration of federal grants. A centralized system will allow the Department to take advantage of common internal controls and will allow for the development of expertise in the area of federal contract monitoring and reporting. Alternatively, DCA should develop a monitoring system to ensure compliance with federal requirements throughout the year. In either cast, a system should be established to base drawdowns on general ledger expenditures.

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

07-07 Reporting - HPD
Significant Deficiency and Compliance

Federal Programs:

Historic Preservation Fund Grants-In-Aid, CFDA #15.904 (Historic Preservation Division) Grant Period: October 1, 2006 through September 30, 2008.

CONDITION

The annual report for CFDA #15.904 for the grant year ending 9/30/07 was due no later than 90 days after the grant year closed or December 30, 2007. The report was not submitted until July 24th, 2008.

CRITERIA

The grant agreements set out the reporting requirements. Circular A-102 Section 2c requires the grant recipient to follow those requirements.

QUESTIONED COSTS

None

CAUSE

DCA lacks adequate monitoring over the controls for managing federal grants and contracts. Each division that administers federal programs within the agency operates within its own subsystem.

EFFECT

The Department was not in compliance with the Federal reporting requirements noted above. There may be some risk that federal funding could be negatively impacted.

RECOMMENDATION

We recommend that DCA implement a centralized, streamlined system for the administration of federal grants. A centralized system will allow the Department to take advantage of common internal controls and will allow for the development of expertise in the area of federal contract monitoring and reporting. Alternatively, DCA should develop a monitoring system to ensure compliance with federal requirements throughout the year.

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

07-08 Davis Bacon Compliance - NPS

Significant Deficiency

National Parks Service CFDA Number(s) – 15.000 Program Name(s) – POG
Annex Act

CONDITION

During our testwork, we noted that the certified payrolls were not being obtained by DCA. They were obtained by the DCA subsequent to year end and our testwork did not note any noncompliance. While a process has been implemented for future awards, currently the process was not in place to monitor Davis Bacon compliance on existing construction contracts.

CRITERIA

Per the Davis Bacon requirements certified payrolls shall be obtained by the non-federal entity for all construction contracts exceeding \$2,000 financed by Federal Funds. The Davis Bacon Act includes a requirement for construction contractors or subcontractors to submit to the non-Federal entity weekly, for each week in which any construction contract work is performed, a copy of the payroll and a statement of compliance.

QUESTIONED COSTS

None.

CAUSE

The Department was not aware as to the compliance requirements related to the federal grant.

EFFECT

For the contracts reviewed above, certified payrolls were received and compliance was achieved, however, without a system to ensure that this is done by the DCA, there would be the possibility that the contractor does not follow Davis Bacon and DCA would be responsible.

RECOMMENDATION

We recommend that the Department follow the new procedures to ensure compliance with the Davis Bacon requirement.

MANAGEMENT RESPONSE

DCA accepts recommendations and has implemented procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-04 Allowable Costs – HPD Payroll
Material Weakness/Compliance

Federal Programs:

Historic Preservation Fund Grants-In-Aid, CFDA #15.904 (Historic Preservation Division) Grant Period: October 1, 2006 through September 30, 2008 and October 1, 2007 through September 30, 2009.

CONDITION

During our walk-through of the internal controls in place for allowable cost we noted that DCA does not maintain personnel Activity Reports to verify time and effort charge to the HPD-HPF grant. In addition they do not maintain periodic certifications that the employee solely worked on that program.

CRITERIA

The following is an excerpt from the OMB Circular A-87:

(1) *Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.*

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) *Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification.* These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-04 Allowable Costs – HPD Payroll (Continued)
Material Weakness/Compliance

CRITERIA (CONTINUED)

(5) Unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

QUESTIONED COSTS

None

CAUSE

DCA lacks adequate monitoring over the controls for managing federal grants and contracts. Each division that administers federal programs within the agency operates within its own subsystem.

EFFECT

DCA is not in compliance with federal requirements; this may impact funding.

RECOMMENDATION

We recommend that DCA implement a centralized, streamlined system for the administration of federal grants. A centralized system will allow the Department to take advantage of common internal controls and will allow for the development of expertise in the area of federal contract monitoring and reporting. Alternatively, DCA should develop a monitoring system to ensure compliance with federal requirements throughout the year. Either way, DCA needs to develop and implement an adequate payroll tracking system.

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-05 Allowable Costs - HPD
Significant Deficiency

Federal Programs:

Historic Preservation Fund Grants-In-Aid, CFDA #15.904 (Historic Preservation Division) Grant Period: October 1, 2006 through September 30, 2008.

CONDITION

During our Allowability of Costs testwork for Historic Preservation Division it was noted that the division did not have adequate supporting documentation surrounding:

- The reconciliation of budget to actual
- The determination of whether funds were transferable to another grant or not.

CRITERIA

Per HPF Grant Manual, costs incurred for the development, preparation, presentation and execution of HPF assisted program and project budgets are allowable.

Per OMB A-133, a cost is allocable to a particular cost objective, such as a grant, contract, project, service or other activity, in accordance with the relative benefits received. Any cost allocable to a particular award or other cost objective under A-122 may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or terms of the award.

CAUSE

DCA lacks adequate monitoring over the controls for managing federal grants and contracts. Each division that administers federal programs within the agency operates within its own subsystem.

EFFECT

The Department was not in compliance with the Federal allowability requirements as noted above; this may impact future funding.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-05 Allowable Costs – HPD (Continued)

RECOMMENDATION

We recommend that DCA implement a centralized, streamlined system for the administration of federal grants. A centralized system will allow the Department to take advantage of common internal controls and will allow for the development of expertise in the area of federal contract monitoring and reporting. Alternatively, DCA should develop a monitoring system to ensure compliance with federal requirements throughout the year.

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

**08-06 Matching Requirement - HPD
Significant Deficiency and Compliance**

Federal Programs

Historic Preservation Fund Grants-In-Aid, CFDA #15.904 (Historic Preservation Division) Grant Period: October 1, 2006 through September 30, 2008 and Grant Period: October 1, 2007 through September 30, 2009.

CONDITION

The Historic Preservation Division did not provide adequate support in regards to the non-federal match required to be made under per the Grant Agreement.

CRITERIA

Per the Grant Agreement, Special Condition #6, Non-federal Matching Share, at least \$420,356 or 40% in eligible nonfederal matching contributions that are allowable and properly documented in accordance with 43 CFR 12.64 must be used during the grant period to share costs for this grant.

QUESTIONED COSTS

None

CAUSE

DCA lacks adequate monitoring over the controls for managing federal grants and contracts. Each division that administers federal programs within the agency operates within its own subsystem and is responsible for carrying the purpose of the federal grant.

EFFECT

Historical Preservation Division is not in compliance with the specified conditions of federal grant agreement and this may impact future funding.

RECOMMENDATION

We recommend DCA establish procedures to document matching expenditures. In addition, we recommend that DCA implement a centralized, streamlined system for the administration of federal grants. A centralized system will allow DCA to take advantage of common internal controls and will allow for the development of expertise in the area of federal contract monitoring and reporting. Alternatively, DCA should develop a monitoring system to ensure compliance with federal requirements throughout the year.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-06 Matching Requirement – HPD (Continued)

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-07 Period of Availability – HPD
Significant Deficiency

Federal Programs:

Historic Preservation Fund Grants-In-Aid, CFDA #15.904 (Historic Preservation Division) Grant Period: October 1, 2006 through September 30, 2008.

CONDITION

During our walk-through of internal controls, for period of availability we noted that controls in place to prevent expenditures from being posted to the grant outside of the period of availability are not in place.

CRITERIA

Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

QUESTIONED COSTS

None

CAUSE

DCA lacks adequate monitoring over the controls for managing federal grants and contracts. Each division that administers federal programs within the agency operates within its own subsystem.

EFFECT

The Department was not in compliance with the Federal allowability requirements as noted above and this may impact future funding.

RECOMMENDATION

We recommend DCA use its general ledger as a basis for federal expenditure reporting and drawdowns. Financial controls over the general ledger already cover posting expenditures in the proper period.

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-08 Subrecipient Monitoring- HPD
Material Weakness and Compliance

Federal Programs:

Historic Preservation Fund Grants-In-Aid, CFDA #15.904 (Historic Preservation Division) Grant Period: October 1, 2006 through September 30, 2008 and October 1, 2007 through September 30, 2009.

CONDITION

During our subrecipient monitoring testwork for Historic Preservation Division the following was noted:

- Does not have procedures in place to determine if a pass-through grant is a sub recipient or vendor relationship.
- Does not obtain or review audits from its sub recipients.

CRITERIA

Per Grant Agreement the state shall comply with all applicable regulations governing HPF grants, including Office of Management and Budget Circular A-133. OMB Circular A-133 requires *Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 (or \$300,000 prior to that date) as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

QUESTIONED COSTS

None

CAUSE

DCA lacks adequate monitoring over the controls for managing federal grants and contracts. Each division that administers federal programs within the agency operates within its own subsystem.

EFFECT

Historical Preservation Division is not in compliance with the applicable laws and regulations set forth in the grant agreement. This may impact future funding.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-08 Subrecipient Monitoring- HPD (Continued)
Material Weakness and Compliance

RECOMMENDATION

We recommend that DCA implement a centralized, streamlined system for the administration of federal grants including subrecipient monitoring. A centralized system will allow the Department to take advantage of common internal controls and will allow for the development of expertise in the area of federal contract monitoring and reporting. Alternatively, DCA should develop a monitoring system to ensure compliance with federal requirements throughout the year.

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to correct the deficiencies.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-09 Internal Controls Payroll
Material Weakness and Compliance

Federal Programs:

Promotion of the Arts Partnership Agreements, CFDA #45.025 (Arts Division); Grant Period: July 1, 2007 through June 30, 2008.

CONDITION

During our walk-through of the internal controls in place for allowable cost we noted that DCA does not maintain personnel Activity Reports to verify time and effort charge to the ARTS grant. In addition they do not maintain periodic certifications for employees that solely worked on that program.

CRITERIA

The following is an excerpt from the OMB Circular A-87:

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their *salaries or wages will be supported by personnel activity reports or equivalent documentation* which meets the standards in subsection

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-09 Internal Controls Payroll (Continued)

(5) Unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

QUESTIONED COSTS

None

CAUSE

DCA lacks adequate monitoring over the controls for managing federal grants and contracts. Each division that administers federal programs within the agency operates within its own subsystem.

EFFECT

DCA is not in compliance with federal requirements.

RECOMMENDATION

We recommend that DCA implement a centralized, streamlined system for the administration of federal grants including payroll tracking. A centralized system will allow the Department to take advantage of common internal controls and will allow for the development of expertise in the area of federal contract monitoring and reporting. Alternatively, DCA should develop a monitoring system to ensure compliance with federal requirements throughout the year.

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-10 Cash Management - ARTS
Significant Deficiency

Federal Programs

Promotion of the Arts Partnership Agreements, CFDA #45.025 (Arts Division); Grant Period: July 1, 2007 through June 30, 2008.

CONDITION

Cash draw-downs amounts reported to the Federal Government Form SF269a for CFDA #45.025 were not adequately supported by the general ledger detail of expenditures.

CRITERIA

OMB Circular A-102 Section 2b and c require grant recipients to have an adequate financial management system and to accurately report drawdown requests on the Form SF269.

QUESTIONED COSTS

None

CAUSE

DCA lacks adequate monitoring over the controls for managing federal grants and contracts. Each division that administers federal programs within the agency operates within its own subsystem. In addition, the agency experienced multiple problems with the implementation of the SHARE system.

EFFECT

The State of New Mexico is not reimbursed timely for federal expenditures made which could cause a loss of investment revenue; non-compliance with the provisions of federal grant agreements

RECOMMENDATION

We recommend that DCA implement a centralized, streamlined system for the administration of federal grants including drawdowns which are based on general ledger activity. A centralized system will allow the Department to take advantage of common internal controls and will allow for the development of expertise in the area of federal contract monitoring and reporting. Alternatively, DCA should develop a monitoring system to ensure compliance with federal requirements throughout the year.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-10 Cash Management – ARTS (Continued)

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-11 Allowable Costs - ARTS
Significant Deficiency

Federal Programs:

Promotion of the Arts Partnership Agreements, CFDA #45.025 (Arts Division); Grant Period: July 1, 2007 through June 30, 2008.

CONDITION

For CFDA #45.025 (Arts Division), the following was noted:

- In two instances out of 10, the contractor did not comply with the Arts Services Contract; however, the contractor still received payment.
- In one instance, a request for payment was submitted, authorized, and processed without proper supporting documentation.

CRITERIA

OMB Circular A-87 Section C requires costs charged to federal programs to be consistent with local laws and regulations, the grant agreements and be adequately documented; Grant Agreements and Contracts for CFDA #45.025.

CAUSE

DCA lacks adequate monitoring over the controls for managing federal grants and contracts. Each division that administers federal programs within the agency operates within its own subsystem. In addition, the agency experienced multiple problems with the implementation of the SHARE system.

EFFECT

There is potential for overpayments to contractors.

RECOMMENDATION

We recommend that DCA implement a centralized, streamlined system for the administration of federal grants. A centralized system will allow the Department to take advantage of common internal controls and will allow for the development of expertise in the area of federal contract monitoring and reporting. Alternatively, DCA should develop a monitoring system to ensure compliance with federal requirements throughout the year.

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-12 Cash Management - ARTS

Federal Programs

Promotion of the Arts Partnership Agreements, CFDA #45.025 (Arts Division); Grant Period: July 1, 2007 through June 30, 2008.

CONDITION

During our testwork we noted that there is no formal review and approval process for cash draw-downs amounts reported to the Federal Government.

CRITERIA

OMB Circular A-102 Section 2b and c require grant recipients to have an adequate financial management system and to accurately report drawdown requests on the Form SF269.

CAUSE

DCA lacks adequate monitoring over the controls for managing federal grants and contracts. Each division that administers federal programs within the agency operates within its own subsystem. In addition, the agency experienced multiple problems with the implementation of the SHARE system.

EFFECT

The State of New Mexico is not reimbursed timely for federal expenditures made which could cause a loss of investment revenue; non-compliance with the provisions of federal grant agreements

RECOMMENDATION

We recommend that DCA implement a centralized, streamlined system for the administration of federal grants. A centralized system will allow the Department to take advantage of common internal controls and will allow for the development of expertise in the area of federal contract monitoring and reporting. Alternatively, DCA should develop a monitoring system to ensure compliance with federal requirements throughout the year.

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-13 Period of Availability - ARTS
Significant Deficiency

Federal Program:

Promotion of the Arts Partnership Agreements, CFDA #45.025 (Arts Division); Grant Period: July 1, 2007 through June 30, 2008

CONDITION

During our walk-through of internal controls, for period of availability we noted that controls in place to prevent expenditures from being posted to the grant outside of the period of availability are not in place.

CRITERIA

Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

QUESTIONED COSTS

None

CAUSE

DCA lacks adequate monitoring over the controls for managing federal grants and contracts. Each division that administers federal programs within the agency operates within its own subsystem.

EFFECT

The Department was not in compliance with the Federal allowability requirements as noted above.

RECOMMENDATION

We recommend the DCA base its drawdowns on the general ledger expenditures. In addition, we recommend that DCA implement a centralized, streamlined system for the administration of federal grants. A centralized system will allow the Department to take advantage of common internal controls and will allow for the development of expertise in the area of federal contract monitoring and reporting. Alternatively, DCA should develop a monitoring system to ensure compliance with federal requirements throughout the year.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-13 Period of Availability – ARTS (Continued)

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-14 Subrecipient Monitoring – ARTS
Significant Deficiency and Compliance

Federal Programs:

Promotion of the Arts Partnership Agreements, CFDA #45.025 (Arts Division); Grant Period: July 1, 2007 through June 30, 2008.

CONDITION

During our subrecipient monitoring testwork for Art Division the following was noted:

- Does not have procedures in place to determine if a pass-through grant is a sub recipient or vendor relationship.
- Does not obtain or review audits from its sub recipients.

CRITERIA

Per Grant Agreement the state shall comply with all applicable regulations governing ARTs grants, including Office of Management and Budget Circular A-133. OMB Circular A-133 requires *Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year for fiscal years ending after December 31, 2003 (or \$300,000 prior to that date) as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient’s audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

CAUSE

DCA lacks adequate monitoring over the controls for managing federal grants and contracts. Each division that administers federal programs within the agency operates within its own subsystem.

EFFECT

ARTs Division is not in compliance with the applicable laws and regulations set forth in the grant agreement; this may impact future funding.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

C. MAJOR FEDERAL AWARDS AND PROGRAMS (CONTINUED)

08-14 Subrecipient Monitoring – ARTS (Continued)

RECOMMENDATION

We recommend that DCA implement a centralized, streamlined system for the administration of federal grants that includes subrecipient monitoring. A centralized system will allow the Department to take advantage of common internal controls and will allow for the development of expertise in the area of federal contract monitoring and reporting. Alternatively, DCA should develop a monitoring system to ensure compliance with federal requirements throughout the year.

MANAGEMENT RESPONSE

DCA accepts recommendations and will implement procedures in order to address the recommendations.

STATE OF NEW MEXICO
DEPARTMENT OF CULTURAL AFFAIRS
EXIT CONFERENCE
Year Ended June 30, 2008

An exit conference was held on December 12, 2008, with the following individuals in attendance:

Department of Cultural Affairs:

Stuart A. Ashman, Cabinet Secretary
Emilio I. Martinez, Director, Administrative Services Division
Elena Sweeny, Director, Museum Services/Deputy Cabinet Secretary
Isabel B. Lopez-Duran, Audit Coordinator

Moss Adams LLP

Larry Carmony, Partner
Veronica Barraza, Senior

The financial statements were prepared with the assistance of Moss Adams LLP.