

TAXATION
REVENUE 
N E W M E X I C O

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
AUDITORS

JUNE 30, 2017

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**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT**

Official Roster

Year Ended June 30, 2017

<u>Name</u>	<u>Title</u>
John Monforte	Acting-Cabinet Secretary
Division Directors:	
Adolfo Montoya	Administrative Services Division
Mike Baca	Information Technology Division
Ron Scott	Audit and Compliance Division
JoAnn Zuniga	Revenue Processing Division
Bryson Frazier	Property Tax Division
William Duran	Motor Vehicle Division
Lilia Ruiz	Tax Fraud Investigations Division

INDEPENDENT AUDITORS' REPORT

John Monforte, Acting-Cabinet Secretary
New Mexico Taxation and Revenue Department
Honorable Susana Martinez, Governor
Wayne A. Johnson, New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund, the budgetary comparisons for the general fund and the aggregate remaining fund information of the New Mexico Taxation and Revenue Department (Department), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

John Monforte, Acting-Cabinet Secretary
New Mexico Taxation and Revenue Department
Honorable Susana Martinez, Governor
Wayne A. Johnson, New Mexico State Auditor

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund, and the aggregate remaining fund information of the Department as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, 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 that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2017, and the changes in financial position, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 on page 60, the State Controller issued three accounting policy statements which directly affected the financial reporting of the Department. Assets belonging to the State of New Mexico are now reported as part of the Department's governmental fund types in the General Fund. These assets were historically reported as part of the Department's agency funds. As a result, government-wide assets and liabilities increased significantly between fiscal year 2017 and fiscal year 2016 as seen at page 18 of management's discussion and analysis. There were no revenues recognized related to this accounting policy change in the Department's General Fund. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the other schedules required by Section 2.2.2 NMAC are also presented for purposes of additional analysis and are not required parts of the basic financial statements.

John Monforte, Acting-Cabinet Secretary
New Mexico Taxation and Revenue Department
Honorable Susana Martinez, Governor
Wayne A. Johnson, New Mexico State Auditor

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and the other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Department's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
October 30, 2017

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

The New Mexico Taxation & Revenue Department's (Department) (TRD) discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the Department's financial activity; (c) identify changes in the Department's financial position (ability to address future year challenges); (d) identify any material deviations from the financial plan (approved budget); and (e) identify fund issues or concerns.

The Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts; please read it in conjunction with the Department's financial statements and notes which follow this section.

Financial Highlights

The assets of the New Mexico Taxation and Revenue Department exceeded its liabilities at the close of the most recent fiscal year by \$49,239,208 (net position). \$29,925,526 of this amount represents the Department's net investment in capital assets. The remainder includes fund balances restricted for special appropriations and subsequent year expenditures related to the Department's non-reverting programs.

The Department's net position decreased by \$21,764,332 during FY17. The change in net position resulted from increased use of prior year restricted fund balance, depreciation of capital assets and fund balance reversions.

The total cost of all Department programs (net of program revenue) was \$91,133,474. The Department administers and enforces New Mexico's taxation and revenue laws and motor vehicle code.

Department Accomplishments

FY 2017 TRD Collections and Distributions

Net Collections: TRD collected a total of \$7.4 billion in FY17. Combined reporting system taxes (gross receipts, withholding and compensating taxes) were the single largest category of collections at \$4.7 billion, or 63%, of total collections. Income taxes were next at \$886 million, or 12%. Mineral extraction taxes were at \$642 million, or 9%. Motor vehicle taxes and fees were \$381 million, or 5%, and other state funds were \$796 million, or 11%.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

Net Distributions: TRD distributed a total of \$7.8 billion in FY17. Of those distributions; \$3.9 billion, or 50%, was distributed to the State General Fund, \$1.7 billion, or 22%, was distributed to local governments, \$346 million, or 4%, was distributed to the New Mexico Department of Transportation, and \$1.8 billion, or 24%, was distributed to other state funds.

Revenue Enhancement Efforts

The Department continued its tax compliance efforts in fiscal year 2017 (FY17). The total FY17 compliance effort was \$267.4 million, including \$238.5 million in collections. This represents a \$30 million decrease from FY16 resulting from a change in the interpretation of statutes related to credit denials. Credit denials decreased from \$41.4 million in FY16 to \$8.7 million in FY17.

The discovery data warehouse identified 7,415 noncompliant taxpayers through audit and IRS matching programs of income sources for delinquent taxpayers totaling \$28 million in FY17. The Questionable Refund Unit reviewed over 79,000 returns in FY17 and denied over \$9 million in fraudulent refunds from being paid.

Compliance Enforcement Program

The Tax Fraud Investigations Division (TFID) referred a total of eight (8) criminal cases to district attorneys in four (4) different New Mexico judicial districts with criminal prosecution recommendations during the fiscal year 2017 (FY17). The cases were located in the northern portion of New Mexico. The majority of outcome of these investigations will have a widespread impact on voluntary compliance in these areas of the state. The division's 67% rate of referrals surpassed the established 40% target.

The investigations were comprised of two (3) embezzlement cases in which the individuals did not report the embezzled income. One (1) case was worked jointly with the New Mexico Regulations and Licensing Division that involved underreported income and the remaining four cases are business owners who did not file and report their gross receipts.

TFID strives to provide outreach so that others are aware of the Division function. The Deputy Director provided a presentation to the Association of Certified Fraud Examiners and also briefly introduced the division to a group of Certified Public Accountants at a meeting in Santa Fe.

TFID reached a milestone during FY17 in that the implementation of the law enforcement authority in the Tax Fraud Investigations Bureau (TFIB) commenced subsequent to the approval of the related policies. The Division currently employs four (4) New Mexico Law Enforcement Officers (LEO) at this point in time and plans to increase this number by two prior to fiscal year end. The division will operate more efficiently in that the TFIB will no longer need to rely on other state law LEOs to achieve certain aspects of its criminal investigations.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

The Internal Investigations Bureau (IIB) completed 100% of the investigations involving employee misconduct within the required sixty-day timeframe. The IIB also spent time following up on a multitude of possible violations involving drivers’ license fraud. The IIB has an established partnership with a federal agency on the investigation of driver’s licenses obtained using fraudulent documents. One of these investigations resulted in two individuals being indicted in federal court on aggravated identity theft.

Internal Audit

Internal Audit functioned with decreased employee resources for approximately 9 months, and hired a replacement manager and one (1) internal auditor. A risk based enterprise risk assessment was conducted and an audit program was developed based on the results of this assessment. The third annual TRD-wide corporate culture assessment was conducted, and the divisions received a report including a comparison to the previous year’s results.

During Fiscal Year 2017, Internal Audit completed twelve (12) audits and twelve (12) special projects, as shown in the table below. Internal Audit’s monitoring process has resulted in 126 of 130 (97.69%) implementation of findings due for FY 2017.

Internal Audits and Special Projects Completed During FY 2017	
Division/Department	Audits / Special Audits
Multi-Division	2
ACD	1
MVD	9
Subtotal	12
Corporate Culture Special Projects	9
Other Special Projects	3
Subtotal	12
Total	24

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

The Information Technology Division of TRD accomplished much in FY17 – the ITD worked with the entire TRD to:

- implement the country's first comprehensive all at once Driver's and Vehicle system on time, on scope, and under budget.
- implement REAL ID.
- defeat fraudsters and security threats and firewall bottlenecks.
- deploy a major version upgrade of GenTax that includes *mobile functionality*.
- rescue and right struggling projects and initiatives.
- restore order within our budget that had been rocked by massive cuts.
- resolve hundreds of PCI audit findings.
- foster innovation and performance.
- support customers and systems ensuring things ran smoothly and efficiently – including new and intriguing implementations (for example we now have an MVD mobile unit).

Legislative Review, Analysis, and Implementations

We implemented a new comprehensive Legislative Review and Analysis process in FY17 with 303 Total Bills analyzed (incl. Bills, Substitutes, Amendments, Drafts & Pre-filed legislations) and 90% bills analyzed on or before due date. Much legislation was signed into Law that affected the department, and ITD had a major role in coordinating and implementing the Legislation:

- HB- 2 Insurance Premium Tax
- HB- 8 Eliminate Cigarette Tax Distribution
- HB- 15 Data Breach Notification Act
- HB- 31 No Double Consequence for Single DWI
- HB- 58 Rulemaking Requirements
- HB-230 Race Day Requirements Change
- HB-249 College Special Event Gross Receipts
- HB-259 Purchase of Emergency Com. Gear
- HB-302 Redefining "Autocycle"
- HB-377 Weight Distance Tax Fund Recipients
- HB-393 Chile License Plates
- HB-408 Tax Liability Changes & Definitions
- HB-444 Tax Contributions for Vietnam Memorial
- HB-536 Tax Refunds for Rape Kit Processing
- SB- 46 E911 Surcharges on Communications Services

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

- SB- 51 Off-Road Vehicle Licenses and Plates
- SB- 67 Notification of TIDD to County Treasurers
- SB- 76 Move Over or Slow Down for Hazard Lights
- SB-113 Reduce Appropriations and Transfer Funds
- SB-136 Driver's License for Some With Only 1 DWI
- SB-181 Colleges as Tax Refund Intercept Claimants
- SB-357 Fallen Police Officer License Plate
- SB-391 Captive Real Estate Investment Trust Income
- SB-411 Telecomm Surcharges on Modern Tech
- SJM-26 Tax Incentives to Attract Retirees to NM

Service requests closed for the FY17 Period

- Service Desk 87,697 closed requests
- GenTax 1,126 closed requests
- Tapestry 7,966 closed requests

Initiatives

In addition to excellent operational performance, progress and/or closure on the following initiatives occurred in FY17:

- Tapestry Project
- Severance Tax Project
- Property Tax Project
- PCI Compliance Project
- GenTax Payment Process Interface Project
- ONGARD Program changes
- MVD Access Privileges
- Image Capture and Search Consistency
- IBML - 1
- IBML - 3
- Fraud Manager
- W-2 Data
- SRFMI-CRS 2016
- CFT Data Exchange-AZ
- DPS data exchange
- SRFMI-CIT 2016
- SRFMI-PIT 2016
- IFTA/IRP
- IRS 2015 Audit
- FEIN Discovery
- PIT Multi Year
- SoS Data Exchange
- ATSS Review
- ONGARD Discovery
- NonFiler Discovery
- DWS/WKC/TRD JPA
- ADP Data Exchange
- DFA Data Exchange
- DEX FRAUD
- IRS 2018 Audit
- Network Segregation
- URL Proxy Replacement
- GenTax SP10
- GenTax PPIU Ph.2

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

- HB 218 Electronic Levy
- Business Credits Data Cube
- GenKFI for Severance Tax
- IBML - Convert Data Extracts
- AIMS
- Internal and External Customer Support Assessment
- Malware
- Qmatic/Orchestra upgrades - MVD
- Qmatic/Orchestra upgrades - ACD
- MVD Mobile Unit - Partners
- Annual Security Assessment
- Acquirer Services RFP
- Data Center Initiative
- SQL 2016 Upgrade
- Disaster Recovery Site
- Enterprise Backup
- Server Traffic Access Control
- Mobile Device Mgmt
- Office 365
- Upgrade to Windows 10
- PTD Business Modernization
- DMS Operations
- Bingo & Raffle Tax (BRT)
- Cashiering Manager
- Go Green – IRP
- PRC
- Website Operations
- Cigarette Distributor reports
- Tobacco Products Tax (TPT)
- E911 Services Surcharge (E911)
- Telecom Relay Services Surcharge (TRS)
- Water Conservation Fee (WCF)
- Gaming MFG & Distributor Tax (GMD)
- Tracking Notification
- Convert EDCR to GenKFI (CRS)
- Convert EDCR to GenKFI (WKC)
- Convert EDCR to GenKFI (WDT)
- Convert EDCR to GenKFI (H2O)
- Convert EDCR to GenKFI (OGR)
- GASB77 Reporting - Governmental Accounting Standards Board 77, new accounting standard
- Implement New Credit Card Vendor
- Semi Annual CRS Rate Changes
- 2 Part Authentication Follow up
- Trend Micro

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

Delinquent Property Accounts

The Property Tax Division (PTD), Delinquent Property Tax Bureau is responsible for the collection of real property taxes that have been delinquent for more than two years. During FY17 the Bureau resolved a total of 8,110 delinquent property accounts, either by field collections or through property tax sales. FY17 collections produced \$4,188,013 in penalty and interest, \$978,658 in State Cost aggregating \$5,167,543 that includes \$45,326 in combined P&I, state costs and contract fees attributable to installment agreements. These are the combined funding sources for the Property Tax Division. There is no funding from the General fund.

Field collections resolved 6,808 accounts or 87.2% of the total resolved delinquent property accounts. The amount of penalty and interest collected through field collections was \$3,965,615 or 94.7% of the total penalty and interest collected. Field collections netted \$909,289 in State Cost or 92.9% of the total State Cost collected.

Installment agreements are executed when delinquent taxpayers need time to meet their obligations. These payment contracts generally have a 36-month term. Penalty and interest collections from Installment Agreements totaled \$41,190. State costs from installment agreements totaled \$3,265. Additional interest on installment agreements were \$122 and contract fees were \$750 on installment agreements in FY17.

Accounts that are not resolved through field collections or installment agreements are scheduled for sale. There were 33 property tax sales conducted in FY17. Overall, we achieved our statutory goal of having a sale in each county requiring a sale and had one county where resolution of outstanding delinquencies made a sale unnecessary. The number of accounts listed for sale in all counties was 1,602. Actual accounts sold were 558 and accounts listed for sale but resolved prior to the actual sale were 744. 300 accounts did not receive bids. Property Tax sales resolved 558 accounts or 42.9% of the total resolved delinquent property accounts. The amount of penalty and interest collected through sales was \$181,208 or 4.3% of the total penalty and interest collected. Sale collections produced \$66,104 in state costs, or, 6.8% of the total state costs collected.

PTD's performance target of returning \$11,500,000 in base taxes to New Mexico's counties was met and exceeded. PTD returned \$12,281,132 in previously uncollected property taxes. Of that base tax total, field collections generated \$11,354,266 (92.5%). Delinquent property tax sales accounted for \$758,047 (6.2%) in base taxes. Installment agreements contributed \$168,818 (1.4%) of delinquent base taxes to New Mexico's counties.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

We intend to hold one in each of New Mexico's 33 Counties in FY18 as well as multiple sales in individual counties as needed. In the fiscal years 2014 and 2015 the Property Tax Division employed bulk sales and concentrated on selling properties that were in their tenth year of delinquency. Because delinquencies aged more than ten years are statutorily uncollectable. It seemed logical to prevent unrecoverable losses in property tax revenue. Similarly, the possibility of bulk sales of low value accounts was an attempt to generate economies of scale and allow potential purchasers to purchase adjoining properties and assemble more useable tracts of vacant land to develop or graze.

Neither strategy met our expectations. The market didn't respond to bulk sales of lots. The strategy of prioritizing tenth year delinquencies didn't help us achieve our goal of returning the maximum delinquent base taxes to our counties and resolving the highest amount of accounts. Ten year delinquencies proved less valuable than the majority of delinquencies and had higher percentages of delinquent taxes that were uncollectable. Easements and arroyos are common examples of properties that should have been taken off the tax roll well before they reached our delinquency list. In FY17 our results remained above average because PTD followed its traditional path of committing to low demand areas strategically when the market exhibited opportunities. We list properties for sale on what we perceive as the fringes of demand and expand our sales accordingly.

The Delinquent Property Tax Bureau has prepared the information necessary to implement the LFC FY18 performance measure which called for a calculation of percentage of delinquent taxes resolved by the PTD every year. There were 116,155 delinquent accounts transferred to the Property Tax Division on the 2013 Delinquency List. The 2013 Delinquency List is subject to collection beginning January 1, 2017 and ending December 31, 2017. Total delinquent base property tax (those taxes which are to be returned to New Mexico's Counties) state wide is \$55,037,867. There are 85,446 delinquent accounts in New Mexico's nine largest inactive subdivisions. This equates to 74% of the total delinquent accounts. Base taxes in these accounts is reported at \$7,103,103, which equates to 13% of base delinquent taxes statewide, or, \$83.13 per account due the counties. It's important to note that the 74% total doesn't include smaller failed subdivisions, just the largest nine.

PTD's certified mailing system has proven to be a valuable tool and has added greater efficiencies to our process allowing more time for collections. The largest potential improvement in delinquent collections, however, is the ongoing Property Tax Division Modernization Program. We completed analyses of our needs, time line planning and appropriation work. We are now the procurement stage of the project. The modernization system will incorporate Geospatial Information to map and market delinquent properties for sale. This will be accompanied by a Case Management System allowing us to work more accounts and eliminate inefficiencies in the process.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

Electronically Filed Tax Returns

The Revenue Processing Division (RPD) received approximately 887,443 Personal Income Tax (PIT) returns and 1,133,273 Combined Reporting System (CRS) returns that were filed electronically. These returns amount to 84% of all incoming PIT returns and 88% of all CRS returns received by the Department.

In addition, RPD received 64,375 PIT returns with a 2-D Bar code. These returns are paper returns that are mailed in, where data from the returns is electronically read from the 2-D bar code as the return is processed through the scanning equipment and the information is then uploaded into the system of record automatically without manual data entry. Approximately 20%-25% of the electronically filed returns do not meet edit criteria and must be reviewed by the edit error staff.

Motor Vehicle

MVD is a premier example of good government. Successful improvement initiatives implemented in recent years have been driven by MVD's Mission, Vision, and Core Values-- every customer, every transaction, every time. Performance has been greatly enhanced as have customer outcomes. MVD is committed to continuous improvement and ongoing innovation, which is driven by the voice of the customer and collaboration with other public and private partners. The FY17 improvements include, but are not limited to, the following:

- MVD launched Tapestry, a \$38 million project to replace its motor vehicle IT system. As of FY17 the project was on time, under budget and listed in GREEN by the Independent Verification and Validation (IV&V) team. The driver's license portion of the project launched in May of 2015 and the vehicles portion launched in September 2016, both of which were a true success. The project finished well under projected budget and is scheduled to be officially closed out by the PCC in early FY18.
- With the launch of the vehicles portion of the system modernization project, MVD implemented real-time access to the National Motor Vehicle Title Information System (NMVTIS), which verifies vehicle information. Through NMVTIS, the MVD can reduce vehicle-related fraud and enhance motor vehicle safety.
- In FY17 MVD enhanced customer service by expanding its partner model and increasing the ways in which customers can access needed MVD services.
- With the implementation of its system modernization, MVD improved and enhanced the ways in which its partners, including auto dealers and auto recyclers can interface with the division. System modernization automated and digitized processes that had previously been manual.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

- Document Management System was greatly enhanced through system modernization; all documentation is scanned into the system by all system users.
- MVD has become a model for motor vehicle operations. At least 14 states have come to New Mexico to observe operations and gather best practices for their own modernization projects or Real ID initiatives.
- MVD went live with issuing its two-tier credentials per Real ID act & HB99, Real ID's and Driving Authorization Cards (DAC), on November 14, 2016. During FY17 MVD issued 277,646 Real ID and 17,173 DAC's from November 15, 2016 to July 1, 2017. On December 22, 2016 DHS issued Final Determination of Full Compliance with REAL ID.
- After the 2017 Legislative Session, MVD worked with the Governor's office to design the newest standard issue plate, Chile Plate, recognizing NM as the Chile Capital of the World. Order was placed with the plate manufacturer for issuance beginning July 1, 2017.
- In FY17, MVD partnered with its card production vendor and Texas and Florida to seek federal funding to support a cross-state, multiple platform facial recognition program for commercial driver's license holders. Funding and implementation of such a program will greatly enhance highway safety and reduce fraud among commercial vehicle operators.
- MVD successfully selected the offeror for the upcoming opening of the largest MVD office in the Westside of Albuquerque in FY18. The Eagle Ranch office will be MVD's largest office with 23 employees with an anticipated grand opening on November 17th, 2017.
- MVD call center wait times have been well below the target level of five minutes. The average call center wait time in FY17 was 4 minutes and 1 second with 226,137 calls answered.
- MVD updated its voter registration process in FY17 resulting in an average 40% increase in voter registration.
- MVD launched the country's first motor vehicle customer satisfaction capture and tracking system in high volume field offices at the beginning of FY14. With 1.4 million data points, more than 98 percent of customers in field offices rate MVD service as "good" or "excellent." In FY17 MVD has continued to maintain a 98.4 percent "good" or "excellent" service rating.
- In FY17, MVD won its sixth consecutive Quality New Mexico Performance Excellence Award and a fourth consecutive Roadrunner.
- In FY17, MVD was again recognized for outstanding organ donation results among driver license and identification card applicants.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

- MVD launched the country's first motor vehicle customer satisfaction capture and tracking system in high volume field offices at the beginning of FY14. With 1.4 million data points, more than 98 percent of customers in field offices rate MVD service as "good" or "excellent." In FY16 MVD has continued to maintain a 98.4 percent "good" or "excellent" service rating.
- MVD streamlined the process for the suspension of vehicle registration for non-evidence of vehicle insurance from 75 days to 30 days.
- MVD has purchased all equipment for a green-screen video production studio, where weekly director updates (and updates from senior leaders) will be filmed and sent to staff. MVD staff from all departments will participate in these productions, insuring a high level of engagement. Involving exotic backdrops, costumes, and humor, this will allow for engaging, focused, and rapid delivery of timely, current information. This green-screen studio gives MVD a high-quality; cost-efficient, value-added production capability to all operating groups; since all filming will be done in-house, operational effectiveness is maximized. In context of the overall work system of MVD, Studio MVD will:
 - cultivate collaboration in the ranks of leadership in communication
 - address a viable need for customer segments. (All partners will have access to the videos).
 - develop the continuity of knowledge management
 - creatively engage the workforce.
 - address operational issues and create efficiencies produce measurable results, whether in employee engagement or operational improvements, or both.
- In FY17, MVD won its fifth consecutive Quality New Mexico Performance Excellence Award and a third consecutive Roadrunner.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) major governmental fund financial statements, and 3) notes to the financial statements. This report also contains other non-major combining and individual governmental fund statements and supplementary information, including the schedule of expenditures of federal awards, in addition to the basic financial statements themselves.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

Government-wide Financial Statements. The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns that add to a total for the Primary Government and consist of a statement of net position and a statement of activities. These statements should report all the assets, liabilities, revenues, expenses, and gains and losses of the government. Both statements distinguish between the governmental and business-type activities of the primary government.

Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

The Department does not engage in any business type activities and therefore all the Department's basic services are included in the governmental activities. State appropriations, allocated fees, and federal grants finance most of these activities. The funds included in Governmental Activities for the Department are the General Operating Fund, the Weight Distance Tax Permit Fee Fund, the Drive MVD Fund, the Native American Fund and the Property Valuation Special Revenue Fund.

Fund Financial Statements. Fund financial statements consist of a series of statements that focus on information about the major governmental funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (enterprise funds) and fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The fund financial statements are like the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

The major fund is the General Fund, which is the Department's primary operating fund and includes the Weight Distance Tax Permit Fee Fund, the Drive MVD Fund, and the Native American Fund.

The non-major funds include the Property Valuation Special Revenue Fund, in which funds are legally restricted for loans to counties to assist them with residential and non-residential property valuations, and the STB Capital Outlay Capital Projects Fund which accounts for severance tax bond funded capital projects.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

The Department has two types of funds:

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

Fiduciary Funds – The fiduciary funds are used to report assets held in trustee or agency capacity for others and therefore are not available to support Department programs. The reporting focus is upon net assets and changes in net assets and employs accounting principles like proprietary funds. Agency fiduciary funds are not included with the governmental-type funds since these funds are not available to support the Department's programs. The Department's fiduciary funds are maintained to receive primarily taxes and some fees. These monies are then distributed to the state general fund, counties, municipalities, other state agencies and other entities.

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

Budgetary Comparisons. In addition to the MD&A, budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget are required to be presented as Required Supplementary Information (RSI).

The budgetary comparison schedules 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 in 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.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

Financial Analysis of the Department as a Whole

Net Position: Total Department net position for fiscal year ended June 30, 2017 is \$49,239,209. However, most of those assets are either restricted as to the purposes they can be used for or are invested in capital assets (buildings, equipment, etc.). The restricted net position in Governmental Activities is \$12,942,485 at the end of the fiscal year. Restricted net position includes \$427,810 legally committed for loans to other counties and \$12,514,675 in fund balances designated for subsequent year expenditures related to the Department's non-reverting programs. More detailed information is presented in Note 17 to the financial statements.

The Department's Net Position

	2017	2016
Assets		
Current and other assets	\$ 943,093,164	50,124,831
Capital assets	29,925,526	34,279,068
	<hr/>	<hr/>
Total assets	973,018,690	84,403,899
	<hr/>	<hr/>
Liabilities		
Current liabilities	923,779,482	13,400,359
	<hr/>	<hr/>
Total liabilities	923,779,482	13,400,359
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	29,925,526	34,279,068
Restricted	12,942,485	30,363,548
Unrestricted (deficit)	6,371,197	6,360,924
	<hr/>	<hr/>
Total net position	\$ 49,239,208	71,003,540
	<hr/> <hr/>	<hr/> <hr/>

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

Governmental Activities: The table below summarizes the Department's activities for the fiscal years ended June 30, 2017 and 2016. Total change in net position from the previous fiscal year was \$21,764,332.

The Department's Governmental Activities

	2017	2016
Program expenses	\$(92,607,928)	\$(89,006,983)
Program revenue	1,474,454	1,725,922
	<hr/>	<hr/>
Net program (expense) revenue	(91,133,474)	(87,281,061)
	<hr/>	<hr/>
General revenues	89,096,624	99,081,648
Transfers and reversions	(19,727,482)	(3,708,771)
	<hr/>	<hr/>
Net general revenues, transfers and	69,369,142	95,372,877
	<hr/>	<hr/>
Change in net position	(21,764,332)	8,091,816
	<hr/>	<hr/>
Net position, beginning of year, as previously reported	71,003,540	61,121,397
Restatement to capital assets	-	1,790,327
	<hr/>	<hr/>
Net position, beginning of year, as restated	71,003,540	62,911,724
	<hr/>	<hr/>
Net position, end of year	<u>\$ 49,239,208</u>	<u>\$ 71,003,540</u>

Revenues for the governmental activities totaled \$70,843,596 and \$97,098,799 in the fiscal years ended June 30, 2017 and 2016, respectively. The decrease is primarily attributable to fund balance reversions in fiscal year 2017.

The Department's program expenses for government-type activities during the fiscal year were \$92,607,928. Personnel services and employee benefits totaled \$54,076,200 or 61% of the program expenses. Other costs of \$4,579,165 or 17% of expenditures was used to support the General Fund operations of the Department such as computer usage, telecommunications, printing motor vehicle forms and tax forms, postage, and leases for rent of office space.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

Governmental Funds: The General Fund of the Department is used to account for the Department's primary operations. Of the total fund balance of \$20,182,084, \$3,899,244 is legally committed for items funded with special appropriations received by the Department. An additional \$16,282,840 is assigned for subsequent year expenditures related to the Department's non-reverting programs.

The Property Valuation special revenue fund is used to fund loans to counties to assist them with residential and non-residential property valuations. The fund balance of \$427,810 is legally committed for this purpose.

During FY17, capital asset activity included \$398,937 of capital outlay purchases for data processing equipment and software enhancements to the Department's major computer processing systems.

Fund Balance: As the Department completed the year, its governmental funds reported a combined fund balance of \$21,410,167. More detailed information about the Department's fund balances is presented in Note 17 to the financial statements.

General Fund Budgetary Highlights

The New Mexico State Legislature makes annual appropriations to the Department. 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.

Over the course of the year, the Department adjusts its budget as authorized in the Appropriation Act. These budget adjustments fall into three 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).
- Budget adjustment requests made during the fiscal year to allow the Department to utilize funds where needed.
- Budget adjustment requests that increase or decrease other state funds based on actual revenues.

Operating Fund 17200: Changes between the original and final budgets were \$1,466,921 for the Operating Fund. The difference between the original operating revenue budget and the final operating revenue budget included \$260,021 in federal grants.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

Actual revenues collected which are classified as Other State Funds, were \$26,617,546 or \$2,667,346 higher than the Operating Budget Amount. This represents an 11% increase over the budgeted amount primarily due to the Property Tax Program exceeding its target for FY17 in collections of penalty and interest on delinquent property taxes and increase revenues to MVD.

Actual Federal grants revenue collected was \$1,474,454 which represents a 17% decrease from the budgeted amount. The U.S. Department of Transportation CDL grant funds a portion of the MVD project to upgrade the driver and vehicle systems. The grant funded portion of the project is delayed until the new driver system is in production.

Weight Distance Tax Permit Fee Fund 99400: Changes between the original and final budgets were \$6,500,000 for the Weight Distance Tax Permit Fee Fund. The difference between the original operating revenue budget and the final operating revenue budget was for prior year cash balance re-budgeted for fund balance reversion.

Actual Weight Distance Administrative Fees collected during FY17 exceeded the budget by \$1,762,883. As a non-reverting program, fund balances will be assigned for subsequent year expenditures.

Drive MVD Fund 79800: Changes between the original and final budgets for the Drive MVD Fund was \$270,000.

Capital Assets

At the end of fiscal year 2017, the Department has invested a total of \$49,839,274 in governmental-type activities in capital assets. This amount represents a net increase (including additions, adjustments and deductions) of \$398,937 (1%) more than last year of \$49,440,337 in gross capital assets without taking accumulated depreciation into account.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

	2017	2016
Furniture and fixtures	\$ 582,666	582,666
Software	41,294,216	34,775,511
Machinery and data processing equipment	6,669,655	6,669,665
Tenant leasehold improvements	550,445	542,099
Vehicles	132,902	132,902
Construction in process	609,390	6,737,504
	<u>49,839,274</u>	<u>49,440,347</u>
Accumulated depreciation	<u>(19,913,748)</u>	<u>(15,161,269)</u>
Net total	<u><u>\$ 29,925,526</u></u>	<u><u>34,279,078</u></u>

The FY17 increase represents capital outlay acquisitions for purchases of data processing equipment and software enhancements to the Department's major computer processing systems. More detailed information about the Department's capital assets is presented in Note 6 to the financial statements.

Debt Administration

The Department does not have any long-term debt.

Economic Factors and Next Year's Budgets

The Department's budget is appropriated to the following programs:

- Program Support
- Tax Administration Act
- Property Tax Program
- Motor Vehicle Program
- Compliance Enforcement Program

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

The Department's operating budget for fiscal year 2017 is \$83,550,900 and includes 1,095.0 full time equivalents (FTE). This represents a 3% decrease from FY17 primarily from a decrease in the General Fund appropriation as represented in Chapter 63, Section 11 of the Laws of 2014.

The Laws of 2014, Chapter 63, Section 7, Item 3 extended the appropriation for \$6,000,000 to stabilize and modernize the ONGARD revenue system through FY17.

The Laws of 2015, Chapter 101, Section 7, Item 3 appropriated \$8,861,500 to implement the motor vehicle division system modernization project funded from the computer systems enhancement fund and program cash balances.

Performance Measures

The Department collects data to measure success in meeting performance measure targets to address the requirements for the Accountability in Government Act (AGA), Sections 6-3A-1 through 6-3A-8 NMSA 1978.

Performance measures should enhance program performance and accountability, ultimately leading to improved services for New Mexicans. The Department periodically reviews and proposes changes to identify which services have had strong outcomes and which have had poor or weak results and why. This encourages the agency to focus on results and how best to deliver services.

The Department continues to work with the Legislative Finance Committee (LFC) and the State Budget Division to report and streamline measures that are meaningful and useful.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

Key measures and FY17 results are summarized in the table below.

Type of Measure	HB2 Measure	FY17 Target	FY17 Result
	Tax Administration Act		
Output	Percent of electronically filed returns (PIT, CRS)	92%	87.0 %
Outcome	Collections as a percent of collectable audit assessments generated in the current fiscal year	60%	58.0%
Outcome	Collections as a percent of collectables outstanding balances from the end of the prior fiscal year	18%	18.4%
Output	Average return on investment (all funds) for every dollar invested in the audit and compliance division	11:1	10.4:1
Outcome	Percent of baseline and funded delinquent tax collection targets met	100.0%	96.7%
Efficiency	Percent of taxpayer correspondence requests answered in an average of ten working days	100%	n/a
	Motor Vehicle Program		
Efficiency	Average call center wait time to reach an agent, in minutes	<5:00	4:53
Outcome	Percent of registered vehicles with liability insurance	92%	88.0%
Efficiency	Average wait time in Q-Matic equipped offices, in minutes	18	22:56
Efficiency	Average number of days to post "court action" driving-while intoxicated citation to driver's record on receipt	1.0	1.3
Quality	Percent of customers rating customer service as good or higher	90%	98.4%
Efficiency	Web transactions as a percent of total transactions	35%	24%

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

Type of Measure	HB2 Measure	FY17 Target	FY17 Result
	Property Tax Program		
Outcome	Percent of counties in compliance with sales ratio standard of eighty-five percent assessed value to market value	96 %	97%
Output	Percent of counties in which a delinquent property sale was held	80%	100%
Output	Amount of delinquent property tax collected and distributed to counties, in millions	\$11.0	\$12.3
	Compliance Enforcement Program		
Outcome	Number of tax investigations referred to prosecutors as a percent of total investigations assigned during the year	50%	67%
Outcome	Successful tax fraud prosecutions as a percent of total cases prosecuted	99%	98%
Outcome	Percent of internal investigations completed with sixty days	75%	100%
	Program Support		
Outcome	Number of working days between expenditure of federal funds and request for reimbursement from federal treasury	15	22
Outcome	Percent of projects certified by the department of information technology completed within budget	100%	100%
Outcome	Number of tax protest cases resolved	1,300	1,524
Outcome	Percent of matched combine reporting system taxes distributed timely	100%	100%
Output	Percent of internal audit recommendations implemented	90%	91.0%

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2017**

Contacting the Agency's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, legislators, and investors and creditors with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

New Mexico Taxation & Revenue Department
Administrative Services Division Director
Post Office Drawer 630
Joseph M. Montoya Building Room 3040
Santa Fe, New Mexico 87504-0630

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF NET POSITION
June 30, 2017**

	Governmental Activities
ASSETS	
Unrestricted cash on hand	\$ 74,111
Interest in the State Treasurer General Fund	
Investment Pool	
Unrestricted	244,674,524
Restricted for loans to counties	427,810
Receivables	
Due from federal government	386,427
Other receivables, net	9,090
Counties, municipalities and fee agents	3,308,079
Due from taxpayers	694,440,280
Citations	4,217,353
Tax assessments	1,273,828,634
Allowance for uncollectibles	(1,281,355,535)
Due from other state agencies	2,344,322
Prepaid expenses	218,148
Inventory of supplies	519,921
Capital assets, net	29,925,526
	<hr/>
Total assets	973,018,690
	<hr/>
LIABILITIES	
Cash overdraft	76,228,339
Accounts payable	4,023,885
Accrued payroll	1,988,741
Due to other state agencies	543,896,590
Due to State General Fund	1,479,389
Refunds due to taxpayers	65,447,794
Unidentified tax collections	228,583,037
Other training liabilities	35,222
Compensated absences	2,096,485
	<hr/>
Total liabilities	923,779,482
	<hr/>
NET POSITION	
Net investment in capital assets	29,925,526
Restricted for loans to counties	427,810
Restricted for other purposes	12,514,675
Unrestricted	6,371,197
	<hr/>
Total net position	\$ 49,239,208
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See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	<u>Program Support</u>	<u>Tax Administration Act</u>	<u>Motor Vehicle Program</u>	<u>Property Tax Program</u>	<u>Compliance Enforcement</u>	<u>Governmental Activities</u>
Program Expenses	\$ 31,963,833	28,264,445	27,947,973	3,033,202	1,398,475	92,607,928
Total program expenses	31,963,833	28,264,445	27,947,973	3,033,202	1,398,475	92,607,928
Program Revenues						
Federal operating grants	-	1,345,950	128,504	-	-	1,474,454
Total program revenues	-	1,345,950	128,504	-	-	1,474,454
Net Program Expense	\$ (31,963,833)	(26,918,495)	(27,819,469)	(3,033,202)	(1,398,475)	(91,133,474)
General Revenues						
Other state funds:						
Delinquent Property Tax						5,103,744
Penalty and Interest						3,902,583
Weight Distance Administrative Fees						18,240,276
MVD Administrative Fees						7,465,677
Other Administrative Fees						
Total general revenues						34,712,280
Transfers and Reversions						
State General Fund appropriations						51,271,700
State General Fund special appropriations						2,833,289
Severance tax bond proceeds						279,355
Transfers from other state agencies						542,615
Transfers to other state agencies						(18,765,600)
Reversions to State General Fund - FY17						(1,504,497)
Total transfers and reversions						34,656,862
Net General Revenues, Transfers and Reversions						69,369,142
Change in net position						(21,764,332)
Net position, beginning of year						71,003,540
Net position, end of year						\$ 49,239,208

See Notes to Financial Statements.

FUND FINANCIAL STATEMENTS

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

	<u>Major Funds</u> General	<u>Other Governmental</u> Funds	<u>Total Governmental</u>
ASSETS			
Interest in the State Treasurer General Fund			
Investment Pool	\$ 244,399,439	702,895	245,102,334
Cash on hand	74,111	-	74,111
Receivables			-
Due from federal government	386,427	-	386,427
Other receivables, net	9,090	-	9,090
Counties, municipalities and fee agents	3,308,079	-	3,308,079
Due from taxpayers	694,440,280	-	694,440,280
Citations	4,217,353	-	4,217,353
Tax assessments	1,273,828,634	-	1,273,828,634
Allowance for uncollectibles	(1,281,355,535)	-	(1,281,355,535)
Due from:			-
Other state agencies	2,344,322	-	2,344,322
Inventory of supplies	519,921	-	519,921
Prepaid expenses	218,148	-	218,148
Total assets	\$ 942,390,269	702,895	943,093,164
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 3,748,800	275,085	4,023,885
Overdraft in Interest in SGFIP	76,228,339		76,228,339
Accrued payroll	1,988,741	-	1,988,741
Due to other state agencies	543,896,590	-	543,896,590
Due to State General Fund	1,479,389	-	1,479,389
Refunds due to taxpayers	65,447,794	-	65,447,794
Unidentified tax collections	228,583,037	-	228,583,037
Other liabilities	35,222	-	35,222
Total liabilities	921,407,912	275,085	921,682,997
Fund Balances			
Nonspendable			
Inventory of supplies	519,921	-	519,921
Prepaid expenses	218,148	-	218,148
Restricted	12,457,833	427,810	12,885,643
Committed	7,761,352	-	7,761,352
Assigned	25,103	-	25,103
Total fund balances	20,982,357	427,810	21,410,167
Total liabilities and fund balances	\$ 942,390,269	702,895	943,093,164

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2017

Total Fund Balances - Governmental Funds (Governmental Fund Balance Sheet)	\$ 21,410,167
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets not included in the governmental funds, but capitalized in the Statement of Net Position	49,839,274
Accumulated depreciation recorded in the Statement of Net Position, but not recorded in the governmental funds	(19,913,748)
	<u>29,925,526</u>
Compensated absences recorded in the Statement of Net Position, but not recorded in the governmental funds	(2,096,485)
	<u>(2,096,485)</u>
Net position of governmental activities (Statement of Net Position)	<u>\$ 49,239,208</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	<u>Major Funds</u> <u>General</u>	<u>Other Governmental</u> <u>Funds</u>	<u>Total Governmental</u>
Revenues			
Other state funds	\$ 34,710,013	2,267	34,712,280
Federal funds	1,474,454	-	1,474,454
Total revenues	36,184,467	2,267	36,186,734
Expenditures			
Current			
Personal services and employee benefits	54,076,200	-	54,076,200
Contractual services	19,200,053	-	19,200,053
Other costs	14,579,165	264	14,579,429
Capital outlay	123,852	275,085	398,937
Total expenditures	87,979,270	275,349	88,254,619
Excess (Deficiency) of Revenues Over Expenditures	(51,794,803)	(273,082)	(52,067,885)
Other Financing Sources (Uses)			
State General Fund appropriations	51,271,700	-	51,271,700
State General Fund special appropriations	2,833,289	-	2,833,289
Severance tax bond proceeds	-	279,355	279,355
Transfers from other state agencies	542,615	-	542,615
Transfers to other state agencies	(18,765,600)	-	(18,765,600)
Reversions to State General Fund - FY17	(1,504,497)	-	(1,504,497)
Total other financing sources (uses)	34,377,507	279,355	34,656,862
Net changes in fund balances	(17,417,296)	6,273	(17,411,023)
Fund balances, June 30, 2016	38,399,653	421,537	38,821,190
Fund balances, June 30, 2017	\$ 20,982,357	427,810	21,410,167

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

Net Changes in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ (17,411,023)

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

Capital asset additions recorded as expenditures in the governmental funds but capitalized in the Statement of Net Position	398,937
Depreciation expense recorded in the Statement of Activities but not recorded as expenditures in the governmental funds	(4,752,479)
Net change in compensated absences recorded in the Statement of Activities as a liability but not recorded in the governmental funds	<u>233</u>
Change in net position of governmental activities (Statement of Activities)	<u><u>\$ (21,764,332)</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200
Year Ended June 30, 2017

	PROGRAM SUPPORT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 18,039,600	18,039,600	18,039,600	-
Other state funds	902,100	1,102,100	1,131,444	29,344
Other sources	650,700	620,600	542,615	(77,985)
Total revenues	19,592,400	19,762,300	\$ 19,713,659	(48,641)
Fund Balance Budgeted	-	-		
Total revenues and fund balance budgeted	\$ 19,592,400	19,762,300		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 13,306,796	13,337,796	12,901,579	436,217
Contractual services	3,600,000	3,992,600	3,864,041	128,559
Other	2,685,604	2,431,904	2,319,581	112,323
Total expenditures	\$ 19,592,400	19,762,300	19,085,201	677,099

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2017

	TAX ADMINISTRATION ACT *			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 20,471,300	20,507,400	20,507,400	-
Other state funds	6,365,100	6,365,100	6,225,108	(139,992)
Federal funds	1,506,800	1,507,279	1,345,950	(161,329)
Other sources	-	-	-	-
Total revenues	28,343,200	28,379,779	\$ 28,078,458	(301,321)
Fund Balance Budgeted	-	-		
Total revenues and fund balance budgeted	\$ 28,343,200	28,379,779		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 22,998,975	22,858,975	22,258,151	600,824
Contractual services	213,400	257,500	244,933	12,567
Other	5,130,825	5,263,304	5,055,151	208,153
Total expenditures	\$ 28,343,200	28,379,779	27,558,235	821,544

* Less Fund 99400

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2017

MOTOR VEHICLE PROGRAM *

	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 11,158,500	11,158,500	11,158,500	-
Other state funds	12,990,500	13,116,500	14,156,767	1,040,267
Federal funds	-	259,542	128,504	(131,038)
Other sources	-	-	-	-
Total revenues	24,149,000	24,534,542	\$ 25,443,771	909,229
Fund balance budgeted		911,000		
Total revenues and fund balance budgeted	\$ 24,149,000	25,445,542		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 14,723,200	14,267,495	14,378,723	(111,228)
Contractual services	3,967,300	4,788,666	4,218,198	570,468
Other	5,458,500	6,389,381	6,213,694	175,687
Other financing uses	-	-	-	-
Total expenditures	\$ 24,149,000	25,445,542	24,810,615	634,927

* Less Funds 99400 and 79800

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2017

	PROPERTY TAX PROGRAM			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State General Fund Appropriations	\$ -	-	-	-
Other state funds	3,366,500	3,366,500	5,104,057	1,737,557
Total revenues	3,366,500	3,366,500	\$ 5,104,057	1,737,557
Fund balance budgeted	-	-		
Total revenues and fund balance budgeted	\$ 3,366,500	3,366,500		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 2,353,800	2,353,800	2,247,100	106,700
Contractual services	378,200	378,200	268,622	109,578
Other	634,500	634,500	517,490	117,010
Other Financing Uses	-	-	9,000,000	(9,000,000)
Total expenditures	\$ 3,366,500	3,366,500	12,033,212	(8,666,712)

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2017

	COMPLIANCE ENFORCEMENT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 1,602,300	1,566,200	1,566,200	-
Other state funds	-	-	170	170
Other sources	-	-	-	-
Total revenues	1,602,300	1,566,200	\$ 1,566,370	170
Fund balance budgeted	-	-		
Total revenues and fund balance budgeted	\$ 1,602,300	1,566,200		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 1,340,300	1,304,200	1,166,977	137,223
Contractual services	13,700	13,700	3,967	9,733
Other	248,300	248,300	224,866	23,434
Total	\$ 1,602,300	1,566,200	1,395,810	170,390

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2017

Fund 17200 SPECIAL APPROPRIATIONS
ONGARD Appropriation ZA0705

	PROGRAM SUPPORT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
Other sources	\$ 4,804,928	4,804,928	2,533,289	(2,271,639)
Total revenues	4,804,928	4,804,928	\$ 2,533,289	(2,271,639)
Fund balance budgeted	-	-		
	\$ 4,804,928	4,804,928		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 125,000	125,000	76,016	48,984
Contractual services	4,659,928	4,659,928	1,173,841	3,486,087
Other	20,000	20,000	9,717	10,283
Other financing uses	-	-	-	-
Total expenditures	\$ 4,804,928	4,804,928	1,259,574	3,545,354

Property Tax System Modernization ZA0706

	PROGRAM SUPPORT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
State General Fund Appropriations	\$ -	-	-	-
Other sources	-	-	-	-
Total revenues	-	-	\$ -	-
Fund balance budgeted	140,000	140,000		
	\$ 140,000	140,000		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	140,000	140,000	8,939	131,061
Other	-	-	-	-
Other financing uses	-	-	-	-
Total expenditures	\$ 140,000	140,000	8,939	131,061

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2017

Fund 17200 SPECIAL APPROPRIATIONS
Cash Remediation ZA0707

	PROGRAM SUPPORT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
State General Fund Appropriations	\$ -	-	-	-
Other sources	-	-	300,000	300,000
Total revenues	-	-	<u>\$ 300,000</u>	<u>300,000</u>
Fund balance budgeted	300,000	300,000		
	<u>\$ 300,000</u>	<u>300,000</u>		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	300,000	300,000	297,620	2,380
Other	-	-	-	-
Other financing uses	-	-	-	-
Total expenditures	<u>\$ 300,000</u>	<u>300,000</u>	<u>297,620</u>	<u>2,380</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
OPERATING FUND 17200 (CONTINUED)
Year Ended June 30, 2017

	TOTAL OPERATING FUND			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State General Fund Appropriations	\$ 51,271,700	51,271,700	51,271,700	-
Other state funds	23,624,200	23,950,200	26,617,546	2,667,346
Federal funds	1,506,800	1,766,821	1,474,454	(292,367)
Other sources	5,455,628	5,425,528	3,375,904	(2,049,624)
Total revenues	81,858,328	82,414,249	\$ 82,739,604	325,355
Fund balance budgeted	140,000	1,051,000		
Total revenues and fund balance budgeted	\$ 81,998,328	83,465,249		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 54,848,071	54,247,266	53,028,546	1,218,720
Contractual services	12,972,528	14,230,594	10,080,161	4,150,433
Other	14,177,729	14,987,389	14,340,499	646,890
Other financing uses	-	-	9,000,000	(9,000,000)
Total expenditures	\$ 81,998,328	83,465,249	86,449,206	(2,983,957)

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
WEIGHT DISTANCE TAX PERMIT FEE FUND 99400
Year Ended June 30, 2017

	TAX ADMINISTRATION ACT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
Other state funds	\$ 912,800	912,800	501,186	(411,614)
Total revenues	912,800	912,800	\$ 501,186	(411,614)
Fund balance budgeted	-	-		
Total revenues and fund balance budgeted	\$ 912,800	912,800		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 794,800	794,800	582,747	212,053
Contractual services	-	-	-	-
Other	118,000	118,000	22,997	95,003
Other financing uses	-	-	-	-
Total expenditures	\$ 912,800	912,800	605,744	307,056

	MOTOR VEHICLE PROGRAM			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
Other state funds	\$ 1,226,900	1,226,900	3,401,397	2,174,497
Total revenues	1,226,900	1,226,900	\$ 3,401,397	2,174,497
Fund balance budgeted	1,265,600	7,765,600		
Total revenues and fund balance budgeted	\$ 2,492,500	8,992,500		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 728,700	728,700	368,366	360,334
Contractual services	301,200	301,200	242,715	58,485
Other	197,000	197,000	129	196,871
Other financing uses	1,265,600	7,765,600	7,765,600	-
Total expenditures	\$ 2,492,500	8,992,500	8,376,810	615,690

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
WEIGHT DISTANCE TAX PERMIT FEE FUND 99400 (CONTINUED)
Year Ended June 30, 2017

	ZA1203 - FUND BALANCE SWEEP - HB311			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other state funds	\$ -	-	-	-
Total revenues	-	-	\$ -	-
Fund balance budgeted	2,000,000	2,000,000		
Total revenues and fund balance budgeted	\$ 2,000,000	2,000,000		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other	-	-	-	-
Other financing uses	2,000,000	2,000,000	2,000,000	-
Total expenditures	\$ 2,000,000	2,000,000	2,000,000	-

See Notes to Financial Statements.

	TOTAL WEIGHT DISTANCE TAX PERMIT FEE FUND			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other state funds	\$ 2,139,700	2,139,700	3,902,583	1,762,883
Total revenues	2,139,700	2,139,700	\$ 3,902,583	1,762,883
Fund balance budgeted	3,265,600	9,765,600		
Total revenues and fund balance budgeted	\$ 5,405,300	11,905,300		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 1,523,500	1,523,500	951,113	572,387
Contractual services	301,200	301,200	242,715	58,485
Other	315,000	315,000	23,126	291,874
Other financing uses	3,265,600	9,765,600	9,765,600	-
Total expenditures	\$ 5,405,300	11,905,300	10,982,554	922,746

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
DRIVE MVD FUND 79800
Year Ended June 30, 2017

	PROGRAM SUPPORT			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other state funds	\$ 108,100	108,100	48,456	(59,644)
Federal funds	-	-	-	-
Total revenues	108,100	108,100	\$ 48,456	(59,644)
Fund balance budgeted	-	-		
Total revenues and fund balance budgeted	\$ 108,100	108,100		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ 108,100	108,100	96,541	11,559
Contractual services	-	-	-	-
Other	-	-	-	-
Other financing uses	-	-	-	-
Total expenditures	\$ 108,100	108,100	96,541	11,559

	MOTOR VEHICLE PROGRAM			
	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other state funds	\$ -	-	-	-
Federal funds	-	-	-	-
Total revenues	-	-	\$ -	-
Fund balance budgeted	-	-		
Total revenues and fund balance budgeted	\$ -	-		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other	-	-	-	-
Other financing uses	-	-	-	-
Total expenditures	\$ -	-	-	-

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
DRIVE MVD FUND 79800 (CONTINUED)
Year Ended June 30, 2017

FUND 798 SPECIAL APPROPRIATION
MVD Modernization Z50703

	PROGRAM SUPPORT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
Other state funds	\$ 7,536,500	7,536,500	1,945,000	(5,591,500)
Other sources	-	-	-	-
Total revenues	7,536,500	7,536,500	\$ 1,945,000	(5,591,500)
Fund Balance Budgeted	-	-		
Total revenues and fund balance budgeted	\$ 7,536,500	7,536,500		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	6,227,800	4,767,066	4,662,582	104,484
Other	1,308,700	2,769,434	339,392	2,430,042
Other financing uses	-	-	-	-
Total expenditures	\$ 7,536,500	7,536,500	5,001,974	2,534,526

FUND 798 SPECIAL APPROPRIATION
MVD Driver Z00703

	PROGRAM SUPPORT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Budgetary Basis Actual Amounts	
	Original	Final		
Revenues				
Other state funds	\$ -	-	(933,840)	(933,840)
Other sources	-	-	-	-
Total revenues	-	-	\$ (933,840)	(933,840)
Fund Balance Budgeted	-	-		
Total revenues and fund balance budgeted	\$ -	-		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other	-	-	-	-
Other financing uses	-	-	-	-
Total expenditures	\$ -	-	-	-

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
DRIVE MVD FUND 79800 (CONTINUED)
Year Ended June 30, 2017

FUND 798 SPECIAL APPROPRIATION
MVD Modernization Z40702

PROGRAM SUPPORT

	Budgeted Amounts			Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final			
	Revenues				
Other state funds	\$ 3,944,595	4,214,595	3,130,268	(1,084,327)	
Other sources	-	-	-	-	
Total revenues	3,944,595	4,214,595	\$ 3,130,268	(1,084,327)	
Fund Balance Budgeted					
Total revenues and fund balance budgeted	\$ 3,944,595	4,214,595			
Expenditures - current and capital outlay					
Personal services/employee benefits	\$ -	-	-	-	
Contractual services	3,944,595	4,214,595	4,214,595	-	
Other	-	-	-	-	
Other financing uses	-	-	-	-	
Total expenditures	\$ 3,944,595	4,214,595	4,214,595	-	

TOTAL DRIVE MVD FUND

	Budgeted Amounts			Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final			
	Revenues				
Other state funds	\$ 11,589,195	11,859,195	4,189,884	(7,669,311)	
Federal funds	-	-	-	-	
Other sources	-	-	-	-	
Total revenues	11,589,195	11,859,195	\$ 4,189,884	(7,669,311)	
Fund balance budgeted	-	-			
Total revenues and fund balance budgeted	\$ 11,589,195	11,859,195			
Expenditures - current and capital outlay					
Personal services/employee benefits	\$ 108,100	108,100	96,541	11,559	
Contractual services	10,172,395	8,981,661	8,877,177	104,484	
Other	1,308,700	2,769,434	339,392	2,430,042	
Other financing uses	-	-	-	-	
Total expenditures	\$ 11,589,195	11,859,195	9,313,110	2,546,085	

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL -
NATIVE AMERICAN FUND 10690
Year Ended June 30, 2017

FUND 10690 SPECIAL APPROPRIATIONS
Native American PIT Settlement Z40519

TAX ADMINISTRATION ACT

	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State General Fund Appropriations	\$ -	-	-	-
Total revenues	-	-	\$ -	-
Fund Balance Budgeted	-	25,445		
Total revenues and fund balance budgeted	\$ -	25,445		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other	-	25,445	-	25,445
Other financing uses	-	-	-	-
Total expenditures	\$ -	25,445	-	25,445

TOTAL NATIVE AMERICAN FUND

	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State General Fund Appropriations	\$ -	-	-	-
Total revenues	-	-	\$ -	-
Fund Balance Budgeted	-	25,445		
Total revenues and fund balance budgeted	\$ -	25,445		
Expenditures - current and capital outlay				
Personal services/employee benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other	-	25,445	-	25,445
Other financing uses	-	-	-	-
Total expenditures	\$ -	25,445	-	25,445

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2017

	Operating Fund 17200	Weight Distance Fund 99400	Drive MVD Fund 79800	Native American Fund 10690	Total General Fund	STB Capital Outlay Fund 89200
Total Expenditures and Other Financing Uses (Statement of Revenues, Expenditures and and Changes in Fund Balance)	\$ 86,449,206	10,982,554	9,313,110	-	106,744,870	275,349
Reversions to State General Fund-FY17	1,504,497	-	-	-	1,504,497	-
Total Expenditures (Statement of Revenues and Expenditures Budget and Actual)	\$ 87,953,703	10,982,554	9,313,110	-	108,249,367	275,349

See Notes to Financial Statements.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND TYPE - AGENCY FUNDS
JUNE 30, 2017

ASSETS

Interest in State General Fund Investment Pool	\$	170,504,878
Cash on hand and in banks		-
Receivables:		
Counties, municipalities and fee agents		135,574
Due from state general fund		-
Due from other state agencies		-
Due from other intra-funds		-
Due from taxpayers		161,325,468
Citations		-
Tax assessments		-
Allowance for uncollectibles		-
 Total assets	 \$	 <u><u>331,965,920</u></u>

LIABILITIES

Accounts payable	\$	1,044
Overdraft in Interest in SGFIP		30,628
Unidentified tax collections		-
Due to state general fund		-
Due to component units		13,846,235
Due to counties and municipalities		318,088,013
Due to other state agencies		-
Due to other funds		-
Refunds due to taxpayers		-
Other liabilities - stale dated warrants		-
 Total liabilities	 \$	 <u><u>331,965,920</u></u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 1. NATURE OF ORGANIZATION

The Taxation and Revenue Department (Department) was created under the Executive Reorganization Act of 1977 (Laws of 1977, Chapter 249, Section 9-11-4, NMSA 1978) to act as the state's principal agency for tax collection and administration. The chief executive of the Department is the Secretary, who is appointed by the Governor of New Mexico and is a member of the Governor's cabinet. These financial statements include all funds over which the Department Secretary has authority. The functions of the Department are administered through the following divisions:

Office of the Secretary. The Office provides overall leadership, administration, and support for the department. The Office sets forth policy for the administration and enforcement of tax laws, oversees Department operations, the Human Resources Bureau, the Training Services Office, the Office of Internal Oversight and advises the Governor on matters of tax and motor vehicle policy. As of July 1, 2015, the Internal Audit Bureau which previously reported to the Tax Fraud Investigations Division will now be a part of the Office of Internal Oversight.

Administrative Services Division. The Administrative Services Division ensures the Department meets its vision, mission, and objectives by providing guidance, information and expertise in the administrative support areas. The division consists of the General Services Bureau, Budget Bureau, Financial Services Bureau and Financial Distribution Bureau.

Information Technology Division. The Information Technology Division provides technology services, resources, and tools to assist the Department in meeting its goals, objectives and performance measures. The director (Agency CIO) is responsible to the Deputy Secretary for all of the Department's computer hardware, software, network and internet resources.

ONGARD Service Center. The ONGARD (Oil and Natural Gas Administration and Revenue Database) Service Center is responsible for maintaining and supporting the operations of the ONGARD computer system. The ONGARD Service Center is a multi-agency project comprised of Energy, Minerals and Natural Resources Department, State Land Office and the Taxation and Revenue Department.

Audit and Compliance Division. The Audit and Compliance Division collects tax and fee revenue through the fair, impartial and consistent application of New Mexico tax laws by implementing effective and timely collection, deposit and auditing activities.

Revenue Processing Division. The Revenue Processing Division is responsible for receiving, processing, depositing and accounting for all tax returns, registration requests, reports and money received from tax and motor vehicle programs administered by the Department.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 1. NATURE OF ORGANIZATION (CONTINUED)

Property Tax Division. The Property Tax division is responsible for administering and enforcing the Property Tax Code and recommending policies and procedures concerning property taxation. The Division Director is also responsible for establishing liaison with the county assessors and treasurers.

Motor Vehicle Division. The Motor Vehicle Division is responsible for the administration of the Motor Vehicle Code. Responsibilities of the Division Director are to license motorists and maintain their records; register and title vehicles; license, regulate and inspect automobile dealers and dismantlers; collect taxes and revenues; provide timely information to law enforcement agencies and other government organizations and provide certain special services such as legal hearings and special license plates.

Tax Fraud Investigations Division. The Tax Fraud Investigations Division is responsible for investigations of various types of tax fraud, motor vehicle fraud and other financial crimes. The division consists of the Internal Investigations Bureau and the Tax Fraud Investigations Bureau. As of July 1, 2015, the Internal Audit Bureau will now be a part of the Office of Internal Oversight under the Office of the Secretary.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard- setting body for governmental accounting and financial reporting and issues statements that establish the financial reporting requirements for state and local governments throughout the United States. The Department is responsible for the fair presentation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America. The Department has prepared required supplementary information entitled, *Management's Discussion and Analysis*, which precedes the basic financial statements.

Financial Reporting Entity. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A primary government is any state or general purpose local government consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The Department, therefore, is part of the primary government of the State of New Mexico and its financial data should be included with the financial data of the State. The Department is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

Copies of the State of New Mexico's Comprehensive Annual Financial Report can be requested from the Department of Finance and Administration, Financial Control Division/State Controller, Bataan Memorial Building Room 320, Santa Fe, NM 87501.

Government-wide and Fund Financial Statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Department. The Department has no business-type activities or component units to report on. Inter-fund balances have been eliminated in the government-wide financial statements. It is the Department's policy to eliminate the internal activity; therefore, amounts due to and due from the agency funds are reported in the statement of net position as due to and due from external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The Department's program revenues consist of operating grants that are restricted to meeting the operational requirements of a particular function or segment. General fund appropriations and other items not properly included among program revenues are reported instead as general revenues. When an expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the Department's policy to use restricted resources first. When expenditures are incurred for purposes, for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the Department's policy to spend committed resources first. The Department reserves the right to selectively spend unassigned resources first to defer use of restricted or committed resources.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The Department's major individual funds are reported as separate columns in the fund financial statements.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation. The accounts of the Department are organized on the basis of funds, each of which is considered a separate accounting entity. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The government-wide and agency fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Derived tax revenues are recognized when the underlying exchange transaction takes place. The Department estimates the amount receivable at year end primarily by looking at subsequent cash receipts up to 120 days past year end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days after the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

In applying the “susceptible to accrual” concept to intergovernmental revenues, 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 appropriations, derived tax revenues, federal grant revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available when the Department receives cash.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Department reports the following major governmental funds:

The General Fund is the Department's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. The Department's operations are funded primarily by appropriations from the State General Fund, which are recorded as revenues in the general fund in the year appropriated.

The General Fund includes an appropriation for the *Weight Distance Tax Permit Fee Fund*, the purpose of which is to provide an account from which the Department may pay the costs of issuing and administering weight distance tax identification permits. The General Fund also includes the *Drive MVD Fund*, the purpose of which is to provide an account from which the Department may track costs associated with the modernization of MVD's vehicle and driver IT systems.

The General Fund includes special appropriations for the Native American Fund. The net assets of this fund are used for Native American personal income tax refunds, for Native American veterans who may have been exempt from paying state personal income taxes on their military income, but may have had state personal income taxes withheld from their military income.

The General Fund also includes funds held and funds due from other state agencies, or components of the New Mexico Comprehensive Annual Financial Report (CAFR). These funds are described starting at page 81.

Additionally, the Department reports the following fund types:

Special Revenue Funds. Special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes.

The Property Valuation Fund. This special revenue fund provides loans to counties to be used to obtain technical assistance in the areas of property valuation, mapping and reappraisal. The Property Valuation Fund (Section 7-35-3 NMSA 1978) was created via a special appropriation. The net assets of this fund are legally restricted for loans to counties to assist with residential and non-residential property valuations. Due to the lack of activity, this fund is not budgeted.

Capital Project Funds. Capital project funds account for financial sources to be used for the acquisition of major capital items.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STB Capital Outlay Fund. This capital project fund is used to account for severance tax bond funded capital projects. The bond proceeds are appropriated by the legislature for construction projects administered by the Department. This fund reverts upon completion of the appropriation project or upon expiration of the appropriation period. Appropriations are received on a reimbursement basis as expenditures occur; therefore, only budgetary reversions are made when applicable.

Fiduciary Funds. Fiduciary funds account for assets held by the Department in a trustee capacity or as an agent for individuals, private organizations other government units and/or funds. The fiduciary fund type includes agency funds, which are custodial in nature and do not present results of operations. Agency funds are used to account for assets that the Department holds for others in an agency capacity. It is comprised of collection funds, which account for all activity of the tax programs administered by the Department, unclaimed property and fuel users/suppliers bonds. Unmatched money (money that cannot be matched to tax returns) over sixty days is remitted to the State General Fund per statute. These funds are subject to be refunded to the taxpayer or subject to being distributed to local governments once the proper tax return is identified and matched to the funds. The balance of the unmatched money sent to the State General Fund as of June 30, 2017 was \$168.1 million.

Cash Deposits and Interest in the State General Fund Investment Pool. The Department is required by statute to remit any money received for or on behalf of the state into the state treasury. Money deposited by the Department with the State Treasurer is pooled and invested by the State Treasurer. Investment securities are exposed to custodial credit risk when the securities are uninsured and not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the agency's name. Specific pledged collateral for amounts held by the State Treasurer is included in the New Mexico State Treasurer's Office separately issued financial statements for the fiscal year ended June 30, 2017.

Cash in transit and in banks is comprised of monies received by the various Department field and port of entry collection offices initially deposited in local banks. On a daily basis, cash in local banks is transferred to the State Treasurer.

"Interest in the State General Fund Investment Pool" is comprised of all of the Department's accounts placed in the custody of the State Treasurer.

Cash on hand (petty cash and change funds) represents imprest amounts at Audit and Compliance Division district field offices, Motor Vehicle Division field offices, and the Tax Fraud Investigations Division offices.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory of Supplies. Inventory is valued at cost (first-in, first-out valuation basis). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased. Inventories at year-end are reported as assets of the General Fund and are equally offset by a fund balance reserve, which indicates it is unavailable for appropriation, even though it is a component of reported net position.

Capital Assets. Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets purchased or acquired at a value of \$5,000 or greater are capitalized per Section 12-6-10 NMSA 1978. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Department utilizes works of art and historical treasures, in addition to 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, since they are not owned by the Department. GASB 34 requires the recording and depreciation of infrastructure assets, such as roads, bridges, etc. The Department does not own any infrastructure assets.

Property and equipment of the Department is depreciated using the straight-line method over the following estimated useful lives:

Furniture and fixtures	7 years
Software	8 years
Machinery and equipment	5 years
Vehicles	5 years
Tenant leasehold improvements	15 years

Compensated Absences. Employees are permitted to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements.

Qualified employees are entitled to accumulate vacation leave according to a graduated leave schedule of 80 to 160 hours per year, depending upon the length of service and the employee's hire date. A maximum of thirty working days (240 hours) of such accumulated vacation leave may be carried forward into the beginning of the subsequent calendar year with any excess forfeited.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When employees terminate, they are compensated for accumulated unpaid vacation leave at the date of termination, up to a maximum of thirty days (240 hours).

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave which an employee may accumulate. Once per fiscal year in either January or July, employees may elect to be paid for 50 percent of accrued sick leave in excess of 600, up to 720 hours, not to exceed 120 hours. In the case of retiring employees, they may be paid for 50 percent of accrued sick leave in excess of 600, up to 1,000 hours, not to exceed 400 hours. All sick leave balances from 600 to 720 hours have been recorded at 50 percent of the employees' hourly rate in the government-wide financial statements.

Deferred Outflows/Inflows of Resources. In addition to assets and liabilities, the statement of net position will sometimes report a separate section for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenditure) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until then. The Department did not have any items that qualified for reporting as a deferred outflow or deferred inflow as of June 30, 2017.

Fund Balance. In the governmental fund financial statements, fund balances are classified as non-spendable, restricted, or unrestricted (committed, assigned, or unassigned). Non-spendable represents reserves for imprest petty cash and change funds, supplies inventory, and prepaid postage. Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive branches intent to be used for specific purposes or in some cases by legislation. See Note 17 for additional information about fund balances.

Net Position. Net position represents the difference between all other elements in a statement of net position and should be displayed in the applicable components of net investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. The Department does not have any debt related to capital assets.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted. Restricted consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The Department restricts fund balance for multi-year appropriations, loans to counties and other funds committed to specific purposes pursuant to legislation.

Unrestricted. Unrestricted consists of the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Budgetary Data. The State Legislature makes annual appropriations to the Department. Legal compliance is monitored through the establishment of an annual budget for the General Fund (Operating Fund 17200, Drive MVD Fund 79800, Weight Distance Tax Permit Fee Fund 99400 and the Native American Fund 10690). A budget is never prepared for the Property Valuation Fund 34800, a special revenue fund.

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentations in these financial statements are consistent with this budgeting methodology.

The following are the procedures followed in establishing the budgetary data presented in the financial statements:

1. The Department submits a proposed budget to the New Mexico state legislature for the fiscal year commencing the following July 1. The state legislature must approve the budget prior to its legal enactment.
2. The expenditures and encumbrances of each appropriation unit may not legally exceed the budget for that category. Budgets are controlled at the "appropriation unit" level within activities (personal services and benefits, contractual services, etc.).
3. Any adjustment to the budget must be submitted to and approved by the State of New Mexico Department of Finance and Administration State Budget Division in the form of a budget adjustment request.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Beginning in FY 2006, the annual budget, per the General Appropriations Act, Laws of 2006, Chapter 109, Section 3, Subsections N and O, was adopted on a modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978) which must be paid out of the next year's budget. The modified accrual basis of accounting is consistent with generally accepted accounting principles (GAAP). Budgeted revenues may be less than budgeted expenditures as the ending fund balance may, in certain instances, be re-budgeted for expenditures in the next fiscal year. Budgetary comparisons presented in the financial statements are on a modified accrual basis of accounting.

The Department has been designated as a "reverting agency" by the New Mexico state legislature and, therefore, pursuant to the Laws of 2004, Chapter 114, Section 2(E), "unencumbered balances in agency accounts remaining at the end of the fiscal year 2017 shall revert to the [state] general fund by September 30, 2017, unless otherwise indicated in the General Appropriations Act of 2004 or otherwise provided by law." The budget does not consider reversions.

5. The Department had a number of invoices where the goods and services were received by June 30, 2017 (FY17), but were unpaid by that date. In these circumstances, accounts payable amounts were not established in FY17 at fiscal year-end because these amounts were immaterial to the financial statements. These payments were processed as "Requests to Pay Prior Year Bills" in FY18 and were paid from FY18 budget.

Encumbrances. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, was previously utilized in governmental funds. Beginning in FY 2005, the expenditure budget was established on the modified accrual basis. Encumbrances related to single-year appropriations lapse at fiscal year-end.

The Department also receives funding from various special appropriations. The language of a particular special appropriation determines when it lapses and whether or not unexpended or unencumbered balances revert to the State General Fund.

Revenue Recognition. Federal grant revenues are recognized as revenue when the expenditure is incurred. State General Fund appropriations are recognized as other financing sources in the year the appropriation is earned. Certain unexpended appropriations are reverted back to the State General Fund.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Severance Tax Bond Proceeds. While the Department receives severance tax bond proceeds for capital outlay projects specified by the legislature, it has no obligation for repayment of the bonds and reports no liability for severance tax bonds payable in its financial statements. These bonds are obligations of the State of New Mexico. The liabilities are reported in the State of New Mexico's Comprehensive Annual Financial Report, or CAFR, issued by the State Controller's Office. The CAFR can be obtained by contacting the State Controller at the Bataan Memorial Building, Santa Fe, NM 87501.

Inter-fund Transfers. Inter-fund transfers represent transfers of funds from one fund to another fund when both funds are part of the same reporting entity. Inter-fund transfers are a legally authorized transfer between funds in which one fund is responsible for the initial receipt of funds (tax collections) and another fund is authorized to use the resources to finance its operating expenditures.

Inter-fund transfers are not considered revenues by the receiving fund or expenditures by the disbursing fund and are recorded as other sources and other transfers under the other financing sources (uses) category. Inter-fund transfers have been eliminated in the government-wide financial statements.

Change in Accounting Policy

The State Controller issued the following accounting policy statements effective for fiscal year ended June 30, 2017:

Accounting Policy Statement Three – Interfund transactions and accounting
Accounting Policy Statement Four and Four A – Custodial Funds
Accounting Policy Statement Five – Intra entity receivables and payables

As a result of the Department implementing these accounting policy statements and for financial reporting purposes, the fiduciary funds (agency fund type) report only assets held for others (entities outside the primary government of the State of New Mexico). Assets belonging to the State of New Mexico are now reported as part of the Department's governmental fund types in the General Fund. There were no revenues recognized related to this accounting policy change in the Department's General Fund. Revenues associated with tax distributions are reported by other state agencies, including the State General Fund in their respective separately issued financial statements. Therefore no restatement of fund balance for the Department's general fund was deemed necessary. However, the State Control plans to revisit the State's revenue recognition policy and process to determine if additional accounting policy changes are necessary.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 3. STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED

Compliant with state law Section 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGIP.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006 through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I, the Board of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation.

The State Controller indicated on August 11, 2017 that as of June 30, 2017, resources held in the pool were equivalent to the corresponding business unit claims on those resources and all claims as recorded in SHARE shall be honored at face value.

The New Mexico Taxation and Revenue Department has established internal control procedures applying the State of New Mexico's Manual of Model Accounting Practices. Since the inception of SHARE, the Department's manual and automated tax information systems have been maintained and reconciled to ensure that cash flows are accurately represented within SHARE.

NOTE 4. CASH AND INTEREST IN THE STATE GENERAL FUND INVESTMENT POOL

At June 30, 2017, the Department had the following invested in the General Fund Investment Pool:

Interest in State General Fund Investment Pool: \$339,348,245

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

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

**NOTE 4. CASH AND INTEREST IN THE STATE GENERAL FUND INVESTMENT
POOL (CONTINUED)**

Credit Risk – The New Mexico State Treasurer pools are not rated.

The Department’s cash funds, other than petty cash and change funds, are deposited into its accounts with the New Mexico State Treasurer’s Office, which are pooled and invested by the State Treasurer or deposited by the Department with local banks as State Agency cash deposits to the credit of the New Mexico State Treasurer’s Office.

Provisions of the New Mexico State Public Money Act (Article 10, Sections 6-10-1 to 6-10-63 NMSA 1978) require a bank to be qualified to receive deposits of public monies by depositing collateral security or by giving bond at a minimum level of 50 percent to collateralize governmental cash deposits when they exceed the amounts of depository insurance by the federal deposit insurance corporation (FDIC) or the national credit union administration (NCUA). The State Treasurer’s Office financial statements disclose the type of purchased security investments held (i.e., bond, note, Treasury bill, etc.), categories of risk involved, security number, Committee on Uniform Securities Identification Procedures (CUSIP) identification number, fair market value, maturity date of securities held, name of the custodian and the place of safekeeping for all “collateral” pledged to secure State Agency cash deposits. The bank balances as of June 30, 2017, are entirely insured or collateralized with securities held by the agent in the bank’s name.

Cash in Banks consists of amounts temporarily deposited in local bank accounts statewide prior to being “swept” nightly into the department’s cash accounts at the State Treasurer’s Office. See the Schedule of Cash Balances in the Other Supplementary Information Section.

Cash on hand (petty cash and change funds) in the amount of \$20,103 was held at the various Audit and Compliance Division (ACD) district offices, Motor Vehicle Division (MVD) field offices and Tax Fraud Investigations Division (TFID) offices for change funds and small purchases. Also, \$5,000 is held by TFID to be used for special investigations.

As of June 30, 2017, the Department’s cash balances (called “Interest in the State General Fund Investment Pool”) have been reconciled to the Department’s portion of the GFIP. See the Schedule of Cash Balances in the Other Supplementary Information Section.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer’s Office for the fiscal year ended June 30, 2017.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 5. RECEIVABLES

Tax assessments represent issued and uncollected assessments at fiscal year-end. As collections of tax assessments and citations cannot be assured, these assessments are not expected to be collected within one year, and a provision for uncollected has been established for all of the tax assessments and citations. The other receivables are considered collectable since they were accrued at year end from information reported to the Department within the accrual period.

\$1,273,828,634 of the active tax assessments issued by the Department and listed below are under protest and/or subject to litigation.

At June 30, 2017, the Department's receivables, including the applicable allowances for uncollectible accounts are as follows:

	Governmental Funds			Fiduciary Funds
	General	Special Revenue	Capital Project	Agency
Receivables:				
Accounts receivable	\$ 9,090	-	-	-
Federal Grants	386,427	-	-	-
County property valuation loans	-	240,000	-	-
Local governments	3,308,079	-	-	135,574
Taxpayers	694,440,280	-	-	161,325,468
Citations	4,217,353	-	-	-
Tax assessments considered uncollectible	1,273,828,634	-	-	-
Gross receivables	1,976,189,863	240,000	-	161,461,042
Allowance for uncollectibles	(1,281,355,535)	(240,000)	-	-
Total receivables, net	\$ 694,834,328	-	-	161,461,042
Due From:				
Other Agencies	\$ 2,344,322	-	-	-
Total Due From	\$ 2,344,322	-	-	-

The following is a description of the accounts receivable recorded by the Department:

Accounts Receivable

Receivables are recorded in connection with payroll employee overpayments, PERA buybacks and database access fee revenues. To date, an allowance of \$20,115 has been recorded for accounts where collection cannot be assured. In FY17, no receivables were determined to be uncollectible. Article IV Section 32 of the New Mexico Constitution provides:

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 5. RECEIVABLES (CONTINUED)

Accounts Receivable (Continued)

No obligation or liability of any person, association or corporation held or owned by or owing to the state, or any municipal corporation therein, shall ever be exchanged, transferred, remitted, released, postponed or in any way diminished by the legislature, nor shall any such obligation or liability be extinguished except by the payment thereof into the proper treasury, or by proper proceeding in court.

The Department does not forgive debt or indicate that a debt properly owed has been forgiven or that the person owing the debt has been released from its payment. The Department maintains records and information concerning all debts due, including the ones that have been recognized as being doubtful. Collection efforts are made on all debt including accounts where collection cannot be assured.

Federal Grants

The Due from Federal Government account represents expenditures incurred under federal grant programs that will be reimbursed by the federal government. All account balances are considered collectible.

County Property Valuation Loans

The loans to counties account represents loans made to provide technical assistance in the areas of property valuation, mapping and reappraisal. An allowance for uncollectible loans of \$240,000 has been recorded for accounts where collection cannot be assured.

Other Receivables – Stale Dated Warrants

Represents warrants that are over twelve months old that need to be restored to the Interest in State General Fund Investment Pool account by the Department of Finance and Administration. No estimate for uncollectible accounts is recorded because the account balance is considered fully collectible.

Citations

Pursuant to state statute Section 66-8-116 NMSA 1978, citations represent “penalty assessments” for violations of the Motor Vehicle Code (Section 66-1-1 NMSA 1978) for traffic offenses. An estimate for uncollectible accounts equal to the penalty assessment amount is recorded where collections cannot be assured.

Tax Assessments

Pursuant to state statute Section 7-1-17.A. NMSA 1978, tax assessments represent the determination by the Department that a taxpayer is liable for taxes that are due. Section 7-1-17.B. NMSA 1978 states “assessment of tax are effective (1) when a return of a taxpayer is received by the Department showing a liability for taxes; (2) when a document denominated “notice of assessment taxes”, issued by the Department is mailed or delivered in person to the taxpayer against whom the liability for tax is asserted, demand-

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 5. RECEIVABLES (CONTINUED)

Tax Assessments (Continued)

ing of the taxpayer the immediate payment of the taxes and briefly informing the taxpayer of the remedies available to the taxpayer; or (3) when an effective jeopardy assessment is made as provided in the Tax Administrative Act (7-1-1 NMSA 1978).” An estimate for uncollectible accounts equal to the taxpayers’ assessment amount is recorded where collections cannot be assured.

Due From Other Funds

The Department records due from other internal, fiduciary funds for revenues that are measurable and available as of June 30, 2017. The Department considers revenue to be available if they are collected within 60 days after the end of the current fiscal year.

Due From Taxpayers

Represents assets recognized from derived taxes revenue transactions in the period when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. No estimate for uncollectible accounts is recorded since the receivable is based on when resources are received.

Due From State General Fund

Represents taxes collected that are over sixty days old that have not been matched to a tax return and are less than three years old that are eligible for refund pursuant to Section 7-1-26 NMSA 1978 and that have been transferred to the State General Fund in accordance with Section 7-1-6.1 NMSA 1978. No estimate for uncollectible accounts is recorded because the account balance is considered fully collectible.

Due From Other Agencies

The Department works with other agencies to determine outstanding revenues due at June 30, 2017.

Write Offs

The Department’s policy does not allow for write offs of outstanding receivables. For receivables where collection cannot be assured, the Department will record an allowance for doubtful accounts.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 5. RECEIVABLES (CONTINUED)

Receivables – General Fund Tax Assessments

At June 30, 2017, tax assessments and penalty citations issued and uncollected by the General Fund were:

Combined reporting system (CRS) taxes	\$	823,025,344
Personal income tax		294,546,360
Corporate income tax		100,673,036
Citations		4,217,353
Cigarette tax		9,437,055
Combined fuel tax		25,392,909
Weight distance tax		17,107,084
Delinquent tax		1,469
Workers' compensation tax		801,967
Restitution		-
Fiduciary income tax		308,621
Gasoline tax		-
Tobacco products		652,397
Special fuel supplier		-
Enhanced 911 tax		371,284
Petroleum products loading fee		-
Liquor excise tax		26,412
International fuel tax agreement/international registration plan		170,414
Water conservation fees		18,515
Local liquor tax		47
Daily bed surcharge		3,493
Railroad car tax		172
Unclaimed property		-
Bingo and raffle tax		7,958
Telecommunications relay surcharge		4,442
Gaming		2,086
Alternative fuel distributors		60
Oil and gas taxes (OGT & HM)		4,587,057
		<hr/>
Total receivables, general fund tax assessments	\$	<u><u>1,281,355,535</u></u>

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Governmental activities:					
Furniture and fixtures	\$ 582,666	-	-	-	582,666
Software	34,775,511	11,307	6,507,398	-	41,294,216
Machinery and data processing equipment	6,669,655	-	-	-	6,669,655
Tenant leasehold improvements	542,099	8,346	-	-	550,445
Vehicles	<u>132,902</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>132,902</u>
Total depreciable assets	<u>42,702,833</u>	<u>19,653</u>	<u>6,507,398</u>	<u>-</u>	<u>49,229,884</u>
Construction in process	<u>6,737,504</u>	<u>379,284</u>	<u>(6,507,398)</u>	<u>-</u>	<u>609,390</u>
Total non-depreciable assets	<u>6,737,504</u>	<u>379,284</u>	<u>(6,507,398)</u>	<u>-</u>	<u>609,390</u>
Total assets	<u>49,440,337</u>	<u>398,937</u>	<u>-</u>	<u>-</u>	<u>49,839,274</u>
Less accumulated depreciation for:					
Furniture and fixtures	(494,231)	(13,372)	-	-	(507,603)
Software	(9,650,009)	(4,098,163)	-	-	(13,739,172)
Machinery and data processing equipment	(4,690,763)	(613,484)	-	-	(5,304,247)
Tenant leasehold improvements	(233,358)	(28,052)	-	-	(261,410)
Vehicles	<u>(92,908)</u>	<u>(8,408)</u>	<u>-</u>	<u>-</u>	<u>(101,316)</u>
Total accumulated depreciation	<u>(15,161,269)</u>	<u>(4,752,479)</u>	<u>()</u>	<u>-</u>	<u>(19,913,748)</u>
Capital assets, net	\$ <u>34,279,068</u>	<u>(4,353,542)</u>	<u>-</u>	<u>-</u>	<u>29,925,526</u>

The Department does not have any debt related to capital assets at June 30, 2017.

Depreciation expense was charged to the following programs:

Program Support	\$1,839,602
Tax Administration Act	375,649
Motor Vehicle Program	2,534,558
Compliance Enforcement	<u>2,670</u>
	<u>\$4,752,479</u>

Capital asset activity included \$379,284 of capital outlay acquisitions, primarily for purchases of data processing equipment and software enhancements to the Department's major computer processing systems.

For the Statement of Activities, depreciation expense is included as expenditures and allocated to the programs using actual depreciation expense for each program.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 7. INTER/INTRA FUND RECEIVABLES AND PAYABLES

Inter-fund transfers are made between the governmental funds of the Department to correct recording errors noted at year-end. Transfers also occur between agency funds and governmental funds of the Department for administrative fees that help pay for the operating costs of certain tax programs in accordance with state laws.

The inter-fund receivables and payables (due to and from other funds) reported in the financial statements represent outstanding cash transfers as of June 30, 2017. There were no such inter-fund receivables or payables as of June 30, 2017.

NOTE 8. INTRA-FUND TRANSFERS

Within the agency funds of the Department, tax collections recorded in one agency fund are transferred to and distributed out of another agency fund in accordance with state laws. The balances represent the transfers made during the fiscal year. Since the transfers are between the tax programs and funds, the following amounts are eliminated for combining purposes to avoid any duplication of account balances:

Additions:	
Income tax suspense fund	\$ 373,998,972
Oil and gas suspense funds (Other) TAA suspense funds (Other)	123,637,441
HazMat fingerprinting fund	107,001,904
Total	<u> -</u> <u>\$ 604,638,317</u>
Deductions:	
CRS suspense fund	\$ 373,998,972
Oil and gas accounting suspense fund	123,637,441
TAA suspense fund	84,807,792
Transportation and motor vehicle suspense fund	<u>22,194,112</u>
Total	<u>\$ 604,638,317</u>

NOTE 9. LEASES

Operating Leases. The Department leases facilities and equipment under numerous operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Department's Statement of Net Position. Leases are subject to future appropriation and are cancelable by the Department at the end of each fiscal year. For the year ended June 30, 2017, facilities rental expenditures were \$3,974,270 and equipment rental expenditures were \$626,523.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 10. LIABILITIES

Current Liabilities. The Department's Governmental Funds total current liabilities at fiscal year-end were \$921,682,997. Accounts payable of \$4,023,855 consists of goods or services received by the Department by June 30, 2017 but paid after June 30, 2017. Accrued payroll of \$1,988,741 consists of payroll expenditures incurred from June 20, 2017 through June 30, 2017 but paid after June 30, 2017.

Compensated Absences. A summary of changes in compensated absences payable for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences payable	\$ 2,096,718	4,084,702	(4,084,935)	2,096,485	2,096,485

For the Statement of Activities, change in compensated absences included as expenditures is allocated to the programs using a payroll allocation percentage. Amounts have been paid out of the General Fund in the past.

NOTE 11. DUE TO STATE GENERAL FUND (REVERSIONS)

Unexpended and unencumbered cash balances of certain funds revert to the State General Fund at year-end. For certain funds, cash recoveries during the fiscal year from stale-dated warrants are also due to the State General Fund. Current year reversions due to the State General Fund as of June 30, 2017 were as follows:

FY17 Reversions:

Total FY17 Reversions	\$1,504,497
Prior Year Reversions - Due From State General Fund	<u>(29,360)</u>

Total due to State General Fund at June 30, 2017	<u><u>\$1,475,137</u></u>
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**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

**NOTE 12. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT
ASSOCIATION**

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State of New Mexico (the State) has implemented the standard for the fiscal year ending June 30, 2017.

The Taxation & Revenue Department, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Overall, Total pension liability exceeds Plan net position resulting in a Net pension liability. The State has determined the State's share of the net pension liability to be a liability of the State as a whole, rather than any agency or department of the State and will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico 87501.

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

Funding Policy. Plan members are required to contribute 8.92% of their gross salary. The Department is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department's contributions to PERA for the years ending June 30, 2017, 2016, and 2015 were \$6,228,096, \$6,502,275, and \$6,677,819, respectively, which equal the amount of the required contributions for each year.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

**NOTE 13. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH
CARE PLAN**

Plan Description. The Department contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 13. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30 2016, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Department's contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015 were \$732,856, \$765,188, and \$786,095, respectively, which equal the required contributions for each year.

NOTE 14. RISK MANAGEMENT

The Department is exposed to various risks of loss for which the Department carries insurance (Auto; Employee Fidelity Bond; General Liability; Civil Rights and Foreign Jurisdiction; Law Enforcement Officers Liability; Money and Securities; Property; and Workers' Compensation) with the State of New Mexico General Services Department, Risk Management Division.

NOTE 15. CONTINGENCIES

Federal Grant Programs. The Department participates in numerous federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Department has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectability of any related receivable as of June 30, 2017, may be impaired.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 15. CONTINGENCIES (CONTINUED)

In the opinion of the Department, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Expenditures disallowed and required to be repaid to the grantor agencies as a result of such audits, if any, would require an appropriation from the State General Fund.

Pending or Threatened Litigation. There are various protests and lawsuits by taxpayers or other parties claiming abatements, refunds and the recovery of unclaimed property in the Department's possession arising from various tax programs administered by the Department. The total dollar amount representing the claims either in protest with the department or pending in state courts is \$221,145,546 for the fiscal year. Management intends to contest all cases vigorously. Any liability would be paid for out of the Department's agency funds.

The Department is also subject to other legal proceedings, claims and liabilities, including employee claims, which arise in the ordinary course of the Department's operations. The litigation is handled through the Department and the State of New Mexico General Services Department, Risk Management Division. In the opinion of the Department's management and in-house legal counsel, the ultimate resolution of the above matters will not have a material adverse impact on the financial position or results of operations of the Department.

NOTE 16. JOINT POWERS AGREEMENTS / MEMORANDUMS OF UNDERSTANDING

The Department has entered into Joint Powers Agreements (JPA) and Memorandums of Understandings (MOU) with numerous New Mexico state agencies, local governments, Tribal entities and other States. These primarily provide for information sharing agreements and database access agreements for Property Tax and Motor Vehicles.

None of these JPA's or MOU's creates a joint venture or ongoing financial interest in another organization. Transactions made pursuant to these agreements are reported by the Department on the modified accrual basis of accounting as general revenues and program expenses. The Schedule of Joint Powers Agreements are in the Other Supplementary Information section of this report.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 17. GOVERNMENTAL FUND BALANCES - RESTRICTED AND COMMITTED

The Department's fund balances represent: (1) Restricted Purposes which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; (2) Committed Purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. A summary of the nature and purpose of these reserves by fund type at June 30, 2017, follows:

<u>Fund/Program</u>	<u>Laws</u>	<u>Committed Purposes</u>	<u>Restricted Purposes</u>
General Fund:			
Native American Settlement	Laws of 2011, Chapter 179, Section 5, Item 9, \$250,000 non-reverting	\$ (24,555)	-
Native American Settlement	Laws of 2014, Chapter 313, Section 5, Item 19, \$50,000 non-reverting	50,000	-
ONGARD Upgrade	Laws of 2014, Chapter 63, Section 7, Item 3, \$6,000,000 through FY16	-	-
Replace MVD System	Laws of 2015, Chapter 101, Section 7, Item 3, \$8,861,500 through FY17	82,258	-
Replace MVD System	Laws of 2014, Chapter 63, Section 7, Item 2, \$12,897,100 through FY16	527,235	-
Replace MVD System	Laws of 2014, Chapter 63, Section 7, Item 2, administrative fees	2,025,310	-
ONGARD Upgrade	Laws 2016, 2nd S, Chapter 11, Section 7, item 5	1,273,715	-
Cash Remediation Upgrades	Laws 2016, 2nd S, Chapter 11, Section 7, item 7	2,380	-
Total General Fund:		<u>3,936,343</u>	<u>-</u>
Total Fund Balance - Committed for Special Appropriations		<u>3,936,343</u>	<u>-</u>
Fund Balance:			
General Fund:			
Financial Responsibility Act	NMSA 1978, Section 66-5-201 and 66-6-23A(5)(e)	-	569,094
EDL - Enhanced Driver's License	NMSA 1978, Section 66-5-44, C	-	1,583,483
Delinquent Property Tax	NMSA 1978, Section 7-38-62	-	6,813,099
PIT Intercept Administration Fees	NMSA 1978, Section 7-2C-12	-	293,503
MVD Non-Reverting Revenues	Laws of 2009, Chapter 156, Section 1 through 7	2,918,795	2,587,342
Out of State DWI Verification	NMSA 1978, Section 66-5-44, B	-	611,311
Weight Distance Tax Fund 99400	NMSA 1978, 7-15A-14	906,213	-
Total General Fund Balance - Restricted / Committed for Subsequent Years' Expenditures		<u>3,825,008</u>	<u>12,457,832</u>
Property Valuation Fund 34800 -			
Loans to Counties	NMSA 1978, 7-35-3(B)	-	427,810
Total Fund Balance		<u>\$ 7,761,350</u>	<u>12,885,642</u>

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 18. REVENUES AND OTHER FINANCING SOURCES

General fund revenue and other financing sources reported for the year ended June 30, 2017 consisted of the following:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other State Funds:			
Delinquent Property Tax	\$ 5,103,744	-	5,103,744
Workers Comp Assessment	619,817	-	619,817
Alcoholic Beverage Tax	76,408	-	76,408
Unclaimed Property	370,500	-	370,500
Sale of MVD Data	7,246,487	-	7,246,487
Motor Vehicle - Special Plates	187,025	-	187,025
Private Retail Agents	1,305,603	-	1,305,603
Enhanced Drivers License (EDL)	1,735,193	-	1,735,193
Parental Responsibilities	69,149	-	69,149
Provisional License	179,341	-	179,341
Hazmat Fingerprinting	-	-	-
Financial Responsibilities	3,680,088	-	3,680,088
Motorcycle & Off Highway Registration Fee	241,531	-	241,531
Out of State DWI Verification Interlock	431,404	-	431,404
Weight Distance Tax Administrative Fees	3,902,583	-	3,902,583
Motor Vehicle Admin Fees	3,164,455	-	3,164,455
Interest Income	-	2,267	2,267
Other Admin Fees (PIT & GRT)	6,276,844	-	6,276,844
Misc. Revenue - Program	119,841	-	119,841
Total Other State Funds	<u>34,710,013</u>	<u>2,267</u>	<u>34,712,280</u>
Other Financing Sources:			
Revenue to operate Native American Fund	-	-	-
Revenue to MVD System Replacement	-	-	-
Severance Tax Bond Proceeds	-	279,355	279,355
Total Other Financing Sources	<u>-</u>	<u>279,355</u>	<u>279,355</u>
State General Fund:			
State General Fund Appropriations	51,271,700	-	51,271,700
Special Appropriations	2,833,289	-	2,833,289
Total State General Fund	<u>54,104,989</u>	<u>-</u>	<u>54,104,989</u>
Total State Funds	88,815,002	281,622	89,096,624
Federal Funds	<u>1,474,454</u>	<u>-</u>	<u>1,474,454</u>
Total Revenues - GAAP	<u>\$ 90,289,456</u>	<u>281,622</u>	<u>90,571,078</u>

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 19. ADOPTION OF NEW ACCOUNTING STANDARD

In fiscal year 2017, the Department adopted Statement No. 77 of the Government Accounting Standards Board, entitled, Tax Abatement Disclosures. Statement No. 77 requires the governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should also recognize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements.
- The specific taxes being abated.
- The gross dollar amount of taxes abated during the period.

The Department has provided the following disclosure of tax abatements affecting the State of New Mexico. Tax receipts processed by the Department are recognized as revenue in various departments of the State, thus the Department does not recognize tax revenues. Abatements affecting the State of New Mexico as a whole are disclosed in the State of New Mexico's Comprehensive Annual Financial Report, or CAFR, issued by the State Controller's Office, beginning June 30, 2017 and subsequent fiscal years. The CAFR can be obtained by contacting the State Controller at the Bataan Memorial Building, Santa Fe, NM 87501. Abatements affecting local governments are disclosed in the financial statements of each local governmental entity, and can be obtained from the accounting department of each local government.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 19. ADOPTION OF NEW ACCOUNTING STANDARD (CONTINUED)

Agency Number	33300	33300
Agency Name	New Mexico Taxation and Revenue Department	New Mexico Taxation and Revenue Department
Agency Type	State Agency	State Agency
Tax Abatement Agreement Name	DEDUCTION -- GROSS RECEIPTS TAX -- SALE OF ENGINEERING, ARCHITECTURAL AND NEW FACILITY CONSTRUCTION SERVICES USED IN CONSTRUCTION OF CERTAIN PUBLIC HEALTH CARE FACILITIES	DEDUCTION -- GROSS RECEIPTS TAX -- SALE OF CONSTRUCTION EQUIPMENT AND CONSTRUCTION MATERIALS USED IN NEW FACILITY CONSTRUCTION OF A SOLE COMMUNITY PROVIDER HOSPITAL THAT IS LOCATED IN A FEDERALLY DESIGNATED HEALTH PROFESSIONAL SHORTAGE AREA
Recipient(s) of tax abatement	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978
Parent company(ies) of recipient(s) of tax abatement	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978
Tax abatement program (name and brief description)	Gross Receipts Tax	Gross Receipts Tax
Specific Tax(es) Being Abated	Gross Receipts Tax	Gross Receipts Tax
Legal authority under which tax abatement agreement was entered into	Section 7-9-99 NMSA 1978	Section 7-9-100 NMSA 1978
Criteria that make a recipient eligible to receive a tax abatement	Receipts from selling an engineering, architectural or construction service used in the new facility construction of a sole community provider hospital that is located in a federally designated health professional shortage area may be deducted from gross receipts if the sale of the engineering, architectural or construction service is made to a foundation or a Nonprofit organization that: A. has entered into a written agreement with a county to pay at least ninety-five percent of the costs of new facility construction of that sole community provider hospital; and B. delivers to the seller of the engineering, architectural or construction service either an appropriate Nontaxable transaction certificate or other evidence acceptable to the secretary of a written agreement made in accordance with Subsection A of this section.	Receipts from selling construction equipment or construction materials used in the new facility construction of a sole community provider hospital that is located in a federally designated health professional shortage area may be deducted from gross receipts if the sale of the construction equipment or construction materials is made to a foundation or a Nonprofit organization that: A. has entered into a written agreement with a county to pay at least ninety-five percent of the costs of new facility construction of that sole community provider hospital; and B. delivers to the seller either an appropriate Nontaxable transaction certificate or other evidence acceptable to the secretary of a written agreement made in accordance with Subsection A of this section.
How are the tax abatement recipient's taxes reduced? (For example: through a reduction of assessed value)	By amount of deduction claimed on the combined reporting system (CRS-1) tax return filed by the taxpayer.	By amount of deduction claimed on the combined reporting system (CRS-1) tax return filed by the taxpayer.
How is the amount of the tax abatement determined? For example, this could be a specific dollar amount, a percentage of the tax liability, etc.	By amount of deduction claimed on the combined reporting system (CRS-1) tax return filed by the taxpayer.	By amount of deduction claimed on the combined reporting system (CRS-1) tax return filed by the taxpayer.
Are there provisions for recapturing abated taxes? (Yes or No)	No	No
If there are provisions for recapturing abated taxes, describe them, including the conditions under which abated taxes become eligible for recapture.	N/A	N/A
List each specific commitment made by the recipient of the abatement.	N/A	N/A
Gross dollar amount, on an accrual basis, by which the government's tax revenues were reduced during the reporting period as a result of the tax abatement agreement.	S-O, no taxpayers have claimed this tax deduction since FY2011	S-O, no taxpayers have claimed this tax deduction since inception
For any Payments in Lieu of Taxes (PILOTs) or similar payments receivable by your agency or another agency in association with the foregone tax revenue, list the authority for and describe the payment, including the agency that is supposed to receive the payment	N/A	N/A
For any Payments in Lieu of Taxes (PILOTs) or similar payments receivable by your agency in association with the foregone tax revenue, list the amount of payments received in the current fiscal year.	N/A	N/A
For any Payments in Lieu of Taxes (PILOTs) or similar payments receivable by a different agency in association with the foregone tax revenue, list the name of the agency and the amount of payments received in the current fiscal year.	N/A	N/A
List each specific commitment made by your agency or any other government, other than the tax abatement.	N/A	N/A
Are any other governments affected by this tax abatement agreement? (Yes or No) If yes, list each affected agency and complete an intergovernmental disclosure for each such agency.	N/A - no taxpayer has claimed this deduction since inception	N/A - no taxpayer has claimed this deduction since inception
If your agency is omitting any information required in this spreadsheet or by GASB 77, cite the legal basis for such omission.	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 19. ADOPTION OF NEW ACCOUNTING STANDARD (CONTINUED)

Agency Number	33300	33300
Agency Name	New Mexico Taxation and Revenue Department	New Mexico Taxation and Revenue Department
Agency Type	State Agency	State Agency
Tax Abatement Agreement Name	ADVANCED ENERGY DEDUCTION -- GROSS RECEIPTS AND COMPENSATING TAXES	CREDIT FOR PRESERVATION OF CULTURAL PROPERTY
Recipient(s) of tax abatement	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978
Parent company(ies) of recipient(s) of tax abatement	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978
Tax abatement program (name and brief description)	Gross Receipts Tax	Personal Income Tax
Specific Tax(es) Being Abated	Gross Receipts Tax	Personal Income Tax
Legal authority under which tax abatement agreement was entered into	Section 7-9-114 NMSA 1978	Section 7-2-18.2 NMSA 1978
Criteria that make a recipient eligible to receive a tax abatement	Receipts from selling or leasing tangible personal property or services that are eligible generation plant costs to a person that holds an interest in a qualified generating facility may be deducted from gross receipts if the holder of the interest delivers an appropriate Nontaxable transaction certificate to the seller or lessor. The department shall issue Nontaxable transaction certificates to a person that holds an interest in a qualified generating facility upon presentation to the department of a certificate of eligibility obtained from the department of environment pursuant to Subsection G of this section for the deduction created in this section or a certificate of eligibility pursuant to Section 7-2-18.25, 7-2A-25 or 7-9G-2 NMSA 1978. The deduction created in this section may be referred to as the "advanced energy deduction".	The taxpayer may claim the credit if: (1) the taxpayer submitted a plan and specifications for restoration, rehabilitation or preservation to the committee and received approval from the committee for the plan and specifications prior to commencement of the restoration, rehabilitation or preservation; (2) the taxpayer received certification from the committee after completing the restoration, rehabilitation or preservation, or committee-approved phase, that it conformed to the plan and specifications and preserved and maintained those qualities of the property that made it eligible for inclusion in the official register; and (3) the project is completed within twenty-four months of the date the project is approved by the committee in accordance with Paragraph (1) of this subsection.
How are the tax abatement recipient's taxes reduced? (For example: through a reduction of assessed value)	By amount of deduction claimed on the combined reporting system (CRS-1) tax return filed by the taxpayer.	By amount of credit claimed on the personal income tax return filed by the taxpayer.
How is the amount of the tax abatement determined? For example, this could be a specific dollar amount, a percentage of the tax liability, etc.	By amount of deduction claimed on the combined reporting system (CRS-1) tax return filed by the taxpayer.	By amount of credit claimed on the personal income tax return filed by the taxpayer.
Are there provisions for recapturing abated taxes? (Yes or No)	No	No
If there are provisions for recapturing abated taxes, describe them, including the conditions under which abated taxes become eligible for recapture.	N/A	N/A
List each specific commitment made by the recipient of the abatement.	N/A	N/A
Gross dollar amount, on an accrual basis, by which the government's tax revenues were reduced during the reporting period as a result of the tax abatement agreement.	\$500,000 - however, the Taxation and Revenue Department is unable to segregate the gross receipts from the compensating tax component, nor is the impact to local governments determinable at this time.	\$0
For any Payments in Lieu of Taxes (PILOTs) or similar payments receivable by your agency or another agency in association with the foregone tax revenue, list the authority for and describe the payment, including the agency that is supposed to receive the payment	N/A	N/A
For any Payments in Lieu of Taxes (PILOTs) or similar payments receivable by your agency in association with the foregone tax revenue, list the amount of payments received in the current fiscal year.	N/A	N/A
For any Payments in Lieu of Taxes (PILOTs) or similar payments receivable by a different agency in association with the foregone tax revenue, list the name of the agency and the amount of payments received in the current fiscal year.	N/A	N/A
List each specific commitment made by your agency or any other government, other than the tax abatement.	N/A	N/A
Are any other governments affected by this tax abatement agreement? (Yes or No) If yes, list each affected agency and complete an intergovernmental disclosure for each such agency.	The Taxation and Revenue Department is unable to segregate the gross receipts from the compensating tax component, nor is the impact to local governments determinable at this time.	No - the only government affected is the State of New Mexico (State General Fund)
If your agency is omitting any information required in this spreadsheet or by GASB 77, cite the legal basis for such omission.	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 19. ADOPTION OF NEW ACCOUNTING STANDARD (CONTINUED)

Agency Number	33300	33300
Agency Name	New Mexico Taxation and Revenue Department	New Mexico Taxation and Revenue Department
Agency Type	State Agency	State Agency
Tax Abatement Agreement Name	CREDIT FOR PRESERVATION OF CULTURAL PROPERTY – CORPORATE INCOME TAX CREDIT	RENEWABLE ENERGY PRODUCTION TAX CREDIT
Recipient(s) of tax abatement	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978
Parent company(ies) of recipient(s) of tax abatement	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978
Tax abatement program (name and brief description)	Corporate Income Tax	Corporate Income Tax
Specific Tax(es) Being Abated	Corporate Income Tax	Corporate Income Tax
Legal authority under which tax abatement agreement was entered into	Section 7-2A-8.6 NMSA 1978	Section 7-2A-19 NMSA 1978
Criteria that make a recipient eligible to receive a tax abatement	The taxpayer may claim the credit if: (1) the taxpayer submitted a plan and specifications for restoration, rehabilitation or preservation to the committee and received approval from the committee for the plan and specifications prior to commencement of the restoration, rehabilitation or preservation; (2) the taxpayer received certification from the committee after completing the restoration, rehabilitation or preservation, or committee-approved phase, that it conformed to the plan and specifications and preserved and maintained those qualities of the property that made it eligible for inclusion in the official register; and (3) the project is completed within twenty-four months of the date the project is approved by the committee in accordance with Paragraph (1) of this subsection.	The taxpayer may claim the credit if: (1) the taxpayer holds title to a qualified energy generator that first produced electricity on or before January 1, 2018; or (2) leases property upon which a qualified energy generator operates from a county or municipality under authority of an industrial revenue bond and if the qualified energy generator first produced electricity on or before January 1, 2018.
How are the tax abatement recipient's taxes reduced? (For example: through a reduction of assessed value)	By amount of credit claimed on the corporate income tax return filed by the taxpayer.	By amount of credit claimed on the corporate income tax return filed by the taxpayer.
How is the amount of the tax abatement determined? For example, this could be a specific dollar amount, a percentage of the tax liability, etc.	By amount of credit claimed on the corporate income tax return filed by the taxpayer.	By amount of credit claimed on the corporate income tax return filed by the taxpayer.
Are there provisions for recapturing abated taxes? (Yes or No)	No	No
If there are provisions for recapturing abated taxes, describe them, including the conditions under which abated taxes become eligible for recapture.	N/A	N/A
List each specific commitment made by the recipient of the abatement.	N/A	N/A
Gross dollar amount, on an accrual basis, by which the government's tax revenues were reduced during the reporting period as a result of the tax abatement agreement.	\$166,694	\$0
For any Payments in Lieu of Taxes (PILOTS) or similar payments receivable by your agency or another agency in association with the foregone tax revenue, list the authority for and describe the payment, including the agency that is supposed to receive the payment.	N/A	N/A
For any Payments in Lieu of Taxes (PILOTS) or similar payments receivable by your agency in association with the foregone tax revenue, list the amount of payments received in the current fiscal year.	N/A	N/A
For any Payments in Lieu of Taxes (PILOTS) or similar payments receivable by a different agency in association with the foregone tax revenue, list the name of the agency and the amount of payments received in the current fiscal year.	N/A	N/A
List each specific commitment made by your agency or any other government, other than the tax abatement.	N/A	N/A
Are any other governments affected by this tax abatement agreement? (Yes or No) If yes, list each affected agency and complete an intergovernmental disclosure for each such agency.	No - the only government affected is the State of New Mexico (State General Fund)	No - the only government affected is the State of New Mexico (State General Fund)
If your agency is omitting any information required in this spreadsheet or by GASB 77, cite the legal basis for such omission.	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978	Confidential Information per Section 7-1-8.1 thru .10 NMSA 1978

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 19. ADOPTION OF NEW ACCOUNTING STANDARD (CONTINUED)

Agency Number	33300
Agency Name	New Mexico Taxation and Revenue Department
Agency Type	State Agency
Tax Abatement Agreement Name	FILM AND TELEVISION TAX CREDIT--FILM PRODUCTION COMPANIES THAT COMMENCE PRINCIPAL PHOTOGRAPHY ON OR AFTER JANUARY 1, 2016.
Recipient(s) of tax abatement	Confidential information per Section 7-1-8.1 thru .10 NMSA 1978
Parent company(ies) of recipient(s) of tax abatement	Confidential information per Section 7-1-8.1 thru .10 NMSA 1978
Tax abatement program (name and brief description)	Personal or Corporate Income Tax
Specific Tax(es) Being Abated	Personal or Corporate Income Tax
Legal authority under which tax abatement agreement was entered into	Section 7-2F-6 NMSA 1978
Criteria that make a recipient eligible to receive a tax abatement	To be eligible for the film production tax credit, a film production company shall submit to the division information required by the division to demonstrate conformity with the requirements of the Film Production Tax Credit Act, including detailed information on each direct production expenditure and each postproduction expenditure. A film production company shall make reasonable efforts, as determined by the division, to contract with a specialized vendor that provides goods and services, inventory or services directly related to that vendor's ordinary course of business. A film production company shall provide to the division a projection of the film production tax credit claim the film production company plans to submit in the fiscal year.
How are the tax abatement recipient's taxes reduced? (For example: through a reduction of assessed value)	By amount of credit claimed on the personal or corporate income tax return filed by the taxpayer.
How is the amount of the tax abatement determined? For example, this could be a specific dollar amount, a percentage of the tax liability, etc.	By amount of credit claimed on the personal or corporate income tax return filed by the taxpayer.
Are there provisions for recapturing abated taxes? (Yes or No)	No
If there are provisions for recapturing abated taxes, describe them, including the conditions under which abated taxes become eligible for recapture.	N/A
List each specific commitment made by the recipient of the abatement.	N/A
Gross dollar amount, on an accrual basis, by which the government's tax revenues were reduced during the reporting period as a result of the tax abatement agreement.	\$1,380,619
For any Payments in Lieu of Taxes (PILOTs) or similar payments receivable by your agency or another agency in association with the foregone tax revenue, list the authority for and describe the payment, including the agency that is supposed to receive the payment	N/A
For any Payments in Lieu of Taxes (PILOTs) or similar payments receivable by your agency in association with the foregone tax revenue, list the amount of payments received in the current fiscal year.	N/A
For any Payments in Lieu of Taxes (PILOTs) or similar payments receivable by a different agency in association with the foregone tax revenue, list the name of the agency and the amount of payments received in the current fiscal year.	N/A
List each specific commitment made by your agency or any other government, other than the tax abatement.	N/A
Are any other governments affected by this tax abatement agreement? (Yes or No) If yes, list each affected agency and complete an intergovernmental disclosure for each such agency.	No - the only government affected is the State of New Mexico (State General Fund)
If your agency is omitting any information required in this spreadsheet or by GASB 77, cite the legal basis for such omission.	Confidential information per Section 7-1-8.1 thru .10 NMSA 1978

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 20. SUBSEQUENT ACCOUNTING PRONOUNCEMENTS

The GASB has issued Statement No. 84, *Fiduciary Activities*, which is effective for fiscal years beginning after December 15, 2018. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments to determine whether an activity should be reported in a fiduciary fund in the financial statements. The Department has not yet determined the effect that the adoption of GASB Statement No. 84 may have on its financial statements.

The GASB has also issued Statement No. 87, *Leases*, which is effective for fiscal years beginning after December 15, 2019. Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In other words, most leases currently classified as operating leases will be accounted for and reported in the same manner as capital leases. The Department has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements.

SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NON-MAJOR FUNDS
June 30, 2017**

Special Revenue Funds. Special Revenue Funds account for revenue sources that are legally restricted to expenditures for specific purposes.

Property Valuation Fund (34800) – This fund provides loans to counties to be used to obtain technical assistance in the areas of property valuation, mapping and reappraisal. This fund was statutorily created by the Laws of 1978, Section 7-35-3. The net assets of this fund are legally restricted for loans to counties to assist with residential and non-residential property valuations. This fund is not budgeted.

Capital Project Funds. Capital Project Funds account for financial sources to be used for the acquisition of major capital items.

STB Capital Outlay Fund (89200) – This capital project fund is used to account for severance tax bond funded capital projects. The bond proceeds are appropriated by the legislature for construction projects administered by the Department. This fund reverts upon completion of the appropriation project or upon expiration of the appropriation period. Appropriations are received on a reimbursement basis as expenditures occur; therefore, only budgetary reversions are made when applicable.

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2017

	<u>Property</u>	<u>Capital</u>	<u>Total</u>
ASSETS			
Interest in the State Treasurer General Fund			
Investment Pool	\$ 427,810	275,085	702,895
Receivables:			
Due from other state agencies	-	-	-
Loans to counties, net	-	-	-
	<hr/>	<hr/>	<hr/>
Total assets	\$ 427,810	275,085	702,895
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND BALANCES			
Liabilities			
Overdraft in Interest in SGFIP		-	-
Accounts payable	\$ -	275,085	275,085
	<hr/>	<hr/>	<hr/>
Total liabilities	-	275,085	275,085
Fund Balances			
Restricted for loans to counties	427,810	-	427,810
	<hr/>	<hr/>	<hr/>
Total fund balances	427,810	-	427,810
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total liabilities and fund balances	\$ 427,810	275,085	702,895

See Notes to Financial Statements.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2017**

	<u>Property</u>	<u>Capital</u>	<u>Total</u>
Revenues			
Miscellaneous revenue	\$ 2,267	-	2,267
Total revenues	2,267	-	2,267
Expenditures			
Current expenditures:			
Operating costs	-	264	264
Capital outlay	-	275,085	275,085
Total expenditures	-	275,349	275,349
Excess of revenues over expenditures	2,267	(275,349)	(273,082)
Other Financing Sources (Uses)			
Severance tax bond proceeds	-	279,355	279,355
Net other financing sources (uses)	-	279,355	279,355
Net change in fund balance	2,267	4,006	6,273
Fund balance, June 30, 2016	425,543	(4,006)	421,537
Fund balance, June 30, 2017	\$ 427,810	-	427,810

See Notes to Financial Statements.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
FIDUCIARY FUND TYPES
June 30, 2017**

Fiduciary fund types are used to account for assets held by the government in a trustee capacity. Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments and/or other funds.

The Tax Administration Act was created by Chapter 7, Article 1, Sections 1 to 82, NMSA 1978, and applies to and governs the administration and enforcement. The following is a list of key taxes, tax acts, surtaxes, advance payments, surcharges and fees:

- Income Tax Act
- Withholding Tax Act
- Gross Receipts and Compensating Tax Act
- Venture Capital Investment Act
- Liquor Excise Tax Act
- Local Liquor Excise Tax Act
- Any municipal local option gross receipts tax
- Any county local option gross receipts tax
- Special Fuels Supplier Tax Act
- Gasoline Tax Act
- Petroleum products loading fee, which fee shall be considered a tax for the purposes of the TAA
- Alternative Fuel Tax Act
- Cigarette Tax Act
- Estate Tax Act
- Railroad Car Company Tax Act
- Investment Credit Act
- Corporate Income and Franchise Tax Act
- Uniform Division of Income for Tax Purposes Act
- Multi-state Tax Compact
- Tobacco Products Tax Act
- Telecommunications relay service surcharge, which surcharge shall be considered a tax for the purposes of the TAA
- Resources Excise Tax Act
- Severance Tax Act
- Severance Surtax

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
FIDUCIARY FUND TYPES (CONTINUED)
June 30, 2017**

- Oil and Gas Severance Tax Act
- Oil and Gas Conservation Tax Act
- Oil and Gas Emergency School Tax Act
- Oil and Gas Ad Valorem Production Tax Act
- Natural Gas Processors Tax Act
- Oil and Gas Production Equipment Ad Valorem Tax Act
- Copper Production Ad Valorem Tax Act
- Any advance payment required to be made by any act, which advance payment shall be considered a tax for the purposes of the TAA
- Enhanced Oil Recovery Act
- Natural Gas and Crude Oil Production Incentive Act
- Intergovernmental production tax credit and intergovernmental production equipment tax credit
- Weight Distance Tax Act
- Workers' compensation fee, which fee shall be considered a tax for purposes of the TAA
- Uniform Unclaimed Property Act
- 911 emergency surcharge and the network and database surcharge which surcharges shall be considered tax for purposes of the TAA
- Solid waste assessment fee, which fee shall be considered a tax for purposes of the TAA
- Water conservation fee, which fee shall be considered a tax for purposes of the TAA
- Gaming Control Act
- Interstate Telecommunication Gross Receipts Tax Act
- Capital Equipment Tax Credit Act
- Small Business Tax Credit Act
- Technology Jobs Tax Credit Act
- Leased Vehicle Gross Receipts Tax Act
- Rural Job Tax Credit
- Motor Vehicle Excise Tax Act
- Film Production Tax Credit

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
FIDUCIARY FUND TYPES (CONTINUED)
June 30, 2017**

The Department uses the following funds to account for the activities of various tax programs it administers:

Collections funds:

CRS Suspense Funds (Funds 70700 and 83200) – used for the taxes reported through the combined reporting system (CRS), which reports gross receipts taxes, compensating taxes, withholding taxes and leased vehicle surcharges.

Personal Income Tax Funds (Funds 23600, 64200, 81900 and 82900) – used for reporting personal income taxes.

Corporate Income Tax (Fund 27900) – used for reporting corporate income taxes, franchise taxes, and past-through entity annual withholding taxes.

TAA Suspense and Other Funds (Funds 68100, 68200, 68300, 68400, 70900, 82800, 83000 and 83100) – used for reporting gasoline taxes, special fuel taxes, alternative fuel taxes, petroleum products loading fees, water conservation fees, liquor taxes, cigarette taxes, tobacco products taxes, gaming taxes, fiduciary taxes, estate taxes, railroad car tax, worker's compensation fees, 911 emergency surcharges, telecommunications relay service surcharges and delinquent property taxes.

Motor Vehicle Funds (Funds 82500 and 68000) – used for reporting motor vehicle excise taxes, vehicle registrations, boat registrations and taxes, special fuel taxes paid through IFTA, weight distance taxes, commercial vehicle permits, and motor vehicle / driver penalties.

Oil and Gas Funds (Funds 23700, 23800, 23900, 71300, 71400, 71500 and 83300) – used for reporting taxes relating primarily to oil and gas, natural gas and other natural resources.

Non-Collection funds:

Other Funds (Funds 70600, 71000 and 82700) – used for reporting cash, securities or bonds posted by special fuel suppliers and dealers, and property presumed to be abandoned and delivered to the custody of the state under the provisions of the Uniform Unclaimed Property Act. Fund 82700 is used for processing unidentified remittances until identification can be resolved.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND TYPE - AGENCY FUNDS
JUNE 30, 2017**

<u>ASSETS</u>	CRS Suspende	Collection	
		Personal Income Tax Funds	Corporate Income Tax
Interest in State General Fund Investment Pool	\$ 135,323,427	-	-
Cash on hand and in banks	-	-	-
Receivables:			
Counties, municipalities and fee agents	-	-	-
Due from state general fund	-	-	-
Due from other state agencies	-	-	-
Due from taxpayers	155,657,400	-	-
Due from Intra-fund programs	-	-	-
Citations	-	-	-
Tax assessments	-	-	-
Allowance for uncollectibles	-	-	-
Total assets	\$ 290,980,827	-	-
<u>LIABILITIES</u>			
Accounts payable	\$ -	-	-
Overdraft in Interest in SGFIP	-	-	-
Unidentified tax collections	-	-	-
Due to state general fund	-	-	-
Due to component units	9,890,711	-	-
Due to counties and municipalities	281,090,116	-	-
Due to other state agencies	-	-	-
Refunds due to taxpayers	-	-	-
Due to Intra-fund programs	-	-	-
Other liabilities - stale dated warrants	-	-	-
Total liabilities	\$ 290,980,827	-	-

See notes to financial statements.

Funds			Non-Collection	Eliminations	June 30, 2017
TAA Suspense / Other	Motor Vehicle	Oil & Gas	Other Funds		Totals
13,095,765	1,665,620	20,420,066	-	-	170,504,878
-	-	-	-	-	-
-	-	135,574	-	-	135,574
-	-	-	-	-	-
-	-	-	-	-	-
3,862,327	1,805,741	-	-	-	161,325,468
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>16,958,092</u>	<u>3,471,361</u>	<u>20,555,640</u>	<u>-</u>	<u>-</u>	<u>331,965,920</u>
-	-	1,044	-	-	1,044
-	-	30,628	-	-	30,628
-	-	-	-	-	-
-	-	-	-	-	-
3,890,259	65,265	-	-	-	13,846,235
13,067,833	3,406,096	20,523,968	-	-	318,088,013
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>16,958,092</u>	<u>3,471,361</u>	<u>20,555,640</u>	<u>-</u>	<u>-</u>	<u>331,965,920</u>

**OTHER SUPPLEMENTARY INFORMATION –
SCHEDULES REQUIRED UNDER 2.2.2 NMAC**

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF GENERAL FUND COMPONENTS - BALANCE SHEET
GENERAL FUNDS
June 30, 2017

	Operating	Weight Distance	Drive MVD	Native American	CRS Suspense
ASSETS					
Interest in the State Treasurer General Fund					
Investment Pool	\$ 23,180,317	1,005,577	2,665,326	25,445	120,994,621
Cash on hand	25,103	-	-	-	-
Receivables:					
Due from federal government	386,427	-	-	-	-
Loans to counties, net	-	-	-	-	-
Other receivables, net	1,590	-	7,500	-	-
Counties, municipalities and fee agents	-	-	-	-	3,308,079
Due from taxpayers	-	-	-	-	311,309,499
Citations	-	-	-	-	-
Tax assessments	-	-	-	-	819,717,265
Allowance for uncollectibles	-	-	-	-	(823,025,344)
Due from:					
Other funds	-	-	-	-	-
Other state agencies	93,320	-	-	-	152
Inventory of supplies	519,921	-	-	-	-
Prepaid expenses	218,148	-	-	-	-
Total assets	\$ 24,424,826	1,005,577	2,672,826	25,445	432,304,272
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 3,482,801	71,422	34,322	-	44,591
Overdraft in Interest in SGFIP	-	-	-	-	-
Accrued payroll	1,957,099	27,942	3,700	-	-
Due to other funds	-	-	-	-	-
Due to other state agencies	54,420	-	-	-	311,265,060
Due to State General Fund	1,479,389	-	-	-	-
Refunds due to taxpayers	-	-	-	-	-
Unidentified tax collections	-	-	-	-	120,994,621
Other Liabilities	35,222	-	-	-	-
Total liabilities	7,008,931	99,364	38,022	-	432,304,272
Fund Balances					
Nonspendable					
Inventory of supplies	519,921	-	-	-	-
Prepaid expenses	218,148	-	-	-	-
Restricted					
Committed	4,194,890	906,213	2,634,804	25,445	-
Assigned	25,103	-	-	-	-
Total fund balances	17,415,895	906,213	2,634,804	25,445	-
Total liabilities and fund balances	\$ 24,424,826	1,005,577	2,672,826	25,445	432,304,272

Personal Income	Collection Funds			Oil & Gas	Non-Collection Other Funds	Total
	Corporate	TAA Suspense /	Motor Vehicle			
-	31,750,046	32,545,835	591,735	28,240,042	3,400,495	244,399,439
-	-	-	49,008	-	-	74,111
-	-	-	-	-	-	386,427
-	-	-	-	-	-	-
-	-	-	-	-	-	9,090
-	-	-	-	-	-	3,308,079
98,178,120	29,426,192	47,419,646	19,074,145	189,032,678	-	694,440,280
-	-	-	4,217,353	-	-	4,217,353
294,546,360	100,673,036	37,197,832	17,107,084	4,587,057	-	1,273,828,634
(294,546,360)	(100,673,036)	(37,199,301)	(21,324,437)	(4,587,057)	-	(1,281,355,535)
-	-	-	-	-	-	-
-	-	23	5,196	2,245,631	-	2,344,322
-	-	-	-	-	-	519,921
-	-	-	-	-	-	218,148
98,178,120	61,176,238	79,964,035	19,720,084	219,518,351	3,400,495	942,390,269
401	-	12,525	102,738	-	-	3,748,800
76,228,339	-	-	-	-	-	76,228,339
-	-	-	-	-	-	1,988,741
-	-	-	-	-	-	-
21,949,380	29,426,192	44,903,462	19,025,611	117,272,465	-	543,896,590
-	-	1,606,636	-	63,691,158	150,000	1,479,389
-	31,750,046	33,441,412	591,735	38,554,728	3,250,495	65,447,794
-	-	-	-	-	-	228,583,037
-	-	-	-	-	-	35,222
98,178,120	61,176,238	79,964,035	19,720,084	219,518,351	3,400,495	921,407,912
-	-	-	-	-	-	519,921
-	-	-	-	-	-	218,148
-	-	-	-	-	-	12,457,833
-	-	-	-	-	-	7,761,352
-	-	-	-	-	-	25,103
-	-	-	-	-	-	20,982,357
98,178,120	61,176,238	79,964,035	19,720,084	219,518,351	3,400,495	942,390,269

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF GENERAL FUND COMPONENTS - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GENERAL FUNDS
Year Ended June 30, 2017

	<u>Operating</u>	<u>Weight Distance</u>	<u>Drive MVD</u>	<u>Native American</u>	<u>Total</u>
Revenues					
Other state funds	\$ 26,617,546	3,902,583	4,189,884	-	34,710,013
Federal funds	1,474,454	-	-	-	1,474,454
Total revenues	28,092,000	3,902,583	4,189,884	-	36,184,467
Expenditures					
Current expenditures:					
Personal services and employee benefits	53,028,546	951,113	96,541	-	54,076,200
Contractual services	10,080,161	242,715	8,877,177	-	19,200,053
Other costs	14,216,647	23,126	339,392	-	14,579,165
Capital outlay	123,852	-	-	-	123,852
Total expenditures	77,449,206	1,216,954	9,313,110	-	87,979,270
Excess of revenues over expenditures	(49,357,206)	2,685,629	(5,123,226)	-	(51,794,803)
Other Financing Sources (Uses)					
State General Fund appropriations	51,271,700	-	-	-	51,271,700
State General Fund special appropriations	2,833,289	-	-	-	2,833,289
Transfers to other state agencies	(9,000,000)	(9,765,600)	-	-	(18,765,600)
Transfers from other state agencies	542,615	-	-	-	542,615
Reversions to State General Fund - FY17	(1,504,497)	-	-	-	(1,504,497)
Net other financing sources (uses)	44,143,107	(9,765,600)	-	-	34,377,507
Net change in fund balance	(5,214,099)	(7,079,971)	(5,123,226)	-	(17,417,296)
Fund balance, June 30, 2016	22,629,994	7,986,184	7,758,030	25,445	38,399,653
Fund balance, June 30, 2017	\$ 17,415,895	906,213	2,634,804	25,445	20,982,357

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF SPECIAL APPROPRIATIONS
Year Ended June 30, 2017

<u>Special Appropriation</u>	<u>Amount Appropriated</u>	<u>Amount Received to Date</u>	<u>Expenditures to Date</u>	<u>Unencumbered Balance</u>	<u>Amount Reverted</u>
General Fund:					
Special appropriation to Taxation & Revenue Department for Native American Settlement, Laws of 2011, Chapter 179, Section 5, Item 9, Non-reverting.	\$ 250,000	250,000	249,788	212	-
Special appropriation to Taxation & Revenue Department for Native American Settlement, Laws of 2014, Chapter 313, Section 5, Item 19, Non-reverting.	50,000	50,000	24,767	25,233	-
Special appropriation to Taxation & Revenue Department for MVD Modernization, Laws of 2014, Chapter 63, Section 7, Item 2, through FY18.	12,897,100	12,897,100	12,369,865	527,235	-
Special appropriation to Taxation & Revenue Department for MVD Modernization, Laws of 2015, Chapter 101, Section 7, Item 3, through FY17	8,861,500	7,536,500	7,454,242	82,258	-
General Fund Total	22,058,600	20,733,600	20,098,662	634,938	-
STB Capital Outlay Fund:					
Severance Tax Bond proceeds to Taxation & Revenue Department to purchase equipment, Laws of 2013, Chapter 226, Section 35. Extended Laws of 2014, Chapter 64, Section 51, through FY18	1,800,000	1,800,000	1,739,944	60,056	-
Total Special Appropriations	\$ 23,858,600	22,533,600	21,838,606	694,994	-

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FIDUCIARY FUND INTER-AGENCY TRANSFERS
YEAR ENDED JUNE 30, 2017

Account Transferred to:	Cash Account Transfer to:	Account Transferred from:	Reason for	Cash Account Transfer	Net Amount
Aging and Long Term Services Department:					
Senior Services Voluntary Contribution	62400-04900	Income Tax Suspense Fund	1	81900-33300 \$	9,606
Children Youth and Families Department:					
CYFD-Children's Trust Fund	78000-69000	Transportation & MVD Suspense	1	82500-33300	31,863
Department of Cultural Affairs:					
OCA Capital Projects/Laws of 1992	69100-50500	CRS TAA Suspense Fund	1	83200-33300	394,237
COA/Municipal Event Surcharge	19305-50500	TAA Suspense Fund	1	82800-33300	712
Department of Education:					
Substance Abuse Education	05700-92400	Income Tax Suspense Fund	1	81900-33300	10,969
Driving Safety Fees	57300-92400	Transportation & MVD Suspense	1	82500-33300	1,516,523
Lottery Tuition	63700-95000	Income Tax Suspense Fund	1	81900-33300	12,371
Department of Environment:					
Tire Recycling Fund	02600-66700	Transportation & MVD Suspense	1	82500-33300	965,515
Water Conservation Fund (WCF)	56700-66700	TAA Suspense Fund	1	82800-33300	2,188,961
Corrective Action Fund (PPL)	99000-66700	TAA Suspense Fund	1	82800-33300	19,704,745
Department of Finance and Administration:					
DFA Appropriations - Restitution	85300-34100	TRD Restitution Fund	1	23600-33300	1,313
DFA Appropriations - CIT	85300-34100	CIT TAA Suspense Fund	1	27900-33300	68,139,393
DFA Appropriations - PIT	85300-34100	PIT TAA Suspense Fund	1	64200-33300	510,532,706
DFA Appropriations - Unclaimed Property	85300-34100	Unclaimed Property Susp Fund	1	71000-33300	23,029,516
SBOF - State Debt	80000-34100	Oil & Gas Ad Valorem Prod Fund	1	71300-33300	6,018,474
SBOF - State Debt	80000-34100	Copper Production Tax Fund	1	71400-33300	152,849
SBOF - State Debt	80000-34100	Ad Valorem Equipment Tax Fund	1	71500-33300	1,131,534
Juvenile Adjudication Fund	10780-34100	Transportation & MVD Suspense	1	82500-33300	115,326
Judicial Education Fund	58900-34100	Transportation & MVD Suspense	1	82500-33300	345,979
DFA Appropriations - MVC	85300-34100	Transportation & MVD Suspense	1	82500-33300	149,669,082
Enhanced 911 Fund	01700-34100	TAA Suspense Fund	1	82800-33300	10,792,532
Cancer Research & Treatment Center	23300-34100	TAA Suspense Fund	1	82800-33300	687,647
Local DWI Grant Fund	56000-34100	TAA Suspense Fund	1	82800-33300	21,738,176
DFA Appropriations - TAA	85300-34100	TAA Suspense Fund	1	82800-33300	141,637,213
DFA Appropriations - WKC	85300-34100	Workmens' Compensation Fund	1	83100-33300	433,030
County-supported Medicaid Fund	02100-34100	CRS TAA Suspense Fund	1	83200-33300	23,114,024
Small Counties Assistance Fund	73700-34100	CRS TAA Suspense Fund	1	83200-33300	6,954,821
DFA Appropriations - CRS TAA	85300-34100	CRS TAA Suspense Fund	1	83200-33300	2,949,482,575
DFA Appropriations - Oil & Gas	85300-34100	Oil & Gas Accounting Suspense	1	83300-33300	341,604,963
Hearing Officer	71820-34000	Administrative Hearing Officer	1	825000-33300	100,000
Department of Game & Fish:					
Game & Fish - Intercept Fund	30700-71700	Income Tax Suspense Fund	1	81900-33300	27,306
Game & Fish-ATV Registration	10840-51600	Transportation & MVD Suspense	1	82500-33300	738,809
Game Protection Fund - Bass Habitat Program	19800-51600	Transportation & MVD Suspense	1	82500-33300	15,599
Game Protection Fund - Wildlife Program	30700-51600	Transportation & MVD Suspense	1	82500-33300	56,894
Department of Human Services					
Child Support Enforcement Fund	97800-63000	Income Tax Suspense Fund	1	81900-33300	2,096,296
Brain Injury Services Fund	76800-62400	Transportation & MVD Suspense	1	82500-33300	576,663
Pit Intercepts	97800-63000	Income Tax Suspense Fund	1	81900-33300	-
Department of Health:					
DOH Breast Cancer Awareness	06100-66500	Transportation & MVD Suspense	1	82500-33300	11,500
Blood Donor Plate	06105-66500	Transportation & MVD Suspense	1	82500-33300	200
Children's Eyesight Fund	26104-66500	Transportation & MVD Suspense	1	82500-33300	103,881
Department of Tourism:					
National Scenic By-Ways Program	03000-41800	Transportation & MVD Suspense	1	82500-33300	21,626
Litter Control & Beautification Fund	26200-41800	Transportation & MVD Suspense	1	82500-33300	1,074,024
Department of Transportation:					
State Road Fund Appropriations	20100-80500	Transportation & MVD Suspense	1	82500-33300	184,870,863
Recycling & Illegal Dumping Fund	20200-80500	Transportation & MVD Suspense	1	82500-33300	1,884,997
Local Government Road Fund	20300-80500	Transportation & MVD Suspense	1	82500-33300	782,854
Motorcycle Training Fund	20600-80500	Transportation & MVD Suspense	1	82500-33300	114,368
DOT DWI Prevention & Education Program	20700-80500	Transportation & MVD Suspense	1	82500-33300	421,499
Traffic Safety Education & Enforcement Fund	20800-80500	Transportation & MVD Suspense	1	82500-33300	345,981
Interlock Device Fund	82600-80500	Transportation & MVD Suspense	1	82500-33300	404,197
State Road Fund Appropriations	20100-80500	TAA Suspense Fund	1	82800-33300	212,559,187
Local Government Road Fund	20300-80500	TAA Suspense Fund	1	82800-33300	19,842,957
State Aviation Fund	20500-80500	TAA Suspense Fund	1	82800-33300	400,498
Highway Infrastructure Fund	20200-80500	CRS TAA Suspense Fund	1	83200-33300	5,963,828
Local Government Road Fund	20300-80500	CRS TAA Suspense Fund	1	83200-33300	1,987,943
State Aviation Fund	20500-80500	CRS TAA Suspense Fund	1	83200-33300	3,977,580

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FIDUCIARY FUND INTER-AGENCY TRANSFERS (CONTINUED)
YEAR ENDED JUNE 30, 2017

Account Transferred to:	Cash Account Transfer to:	Account Transferred from:	Reason for	Cash Account Transfer	Net Amount
Department of Veterans' Services:					
Veterans National Cemetery	12300-67000	Income Tax Suspense Fund	1	81900-33300	10,049
New Mexico VSC/ Enterprise Fund	20490-67000	Transportation & MVD Suspense	1	82500-33300	114,950
New Mexico VSC/ Armed Forces	78400-67000	Transportation & MVD Suspense	1	82500-33300	97,421
New Mexico VSC/Enterprise Fund	20490-67000	Income Tax Suspense Fund	1	81900-33300	5,913
Energy, Minerals & Natural Resources Department:					
EMNRD Parks & Recreation/Vietnam Memorial	20010-52100	Income Tax Suspense Fund	1	81900-33300	11,048
EMNRD Forest Relief	32100-52100	Income Tax Suspense Fund	1	81900-33300	12,824
EMNRD - Parks & Recreation	20010-52100	Transportation & MVD Suspense	1	82500-33300	435,033
Boat Suspense Fund	77300-52100	Transportation & MVD Suspense	1	82500-33300	554,215
EMNRD Parks & Recreation	20010-52100	TAA Suspense Fund	1	82800-33300	17,085
Motor Boat Fuel Tax Fund	30900-52100	TAA Suspense Fund	1	82800-33300	200,259
NM Youth Conservation Corps Fund	01400-52200	CRS TAA Suspense Fund	1	83200-33300	3,942,696
EMNRD Capital Projects/ 1994	64600-52100	CRS TAA Suspense Fund	1	83200-33300	5,519,028
OCD - Oil and Gas Reclamation	31100-52100	Oil & Gas Accounting Suspense	1	83300-33300	2,440,223
General Services Department:					
Handicapped Phone Access Fund	56500-35000	TAA Suspense Fund	1	82800-33300	1,880,057
Livestock Board					
NM Livestock/Horse Shelter	12130-50800	Income Tax Suspense Fund	1	81900-33300	9,796
Military Affairs Department					
Veterans Service/Armed Forces	10580-70500	Income Tax Suspense Fund	1	81900-33300	6,382
New Mexico Administrative Office of the Courts:					
Admin Office of the Courts	53300-21800	Income Tax Suspense Fund	1	81900-33300	361,638
Jury & Witness Fee Fund	01200-21800	Transportation & MVD Suspense	1	82500-33300	576,662
Court Automation Fund	07800-21800	Transportation & MVD Suspense	1	82500-33300	1,153,355
Magistrate Court Operations Fund	11120-21800	Transportation & MVD Suspense	1	82500-33300	4,175
Court Facilities Fund	53200-21800	Transportation & MVD Suspense	1	82500-33300	1,265,379
Local Government Corrections Fund	68800-21800	Transportation & MVD Suspense	1	82500-33300	2,146,674
Bernalillo County Metro Court:					
Bernalillo County Metro Court	69300-24400	Income Tax Suspense Fund	1	81900-33300	1,832
New Mexico Retiree Health:					
NM Retiree Health Care Fund	38100-34300	CRS TAA Suspense Fund	1	83200-33300	28,306,470
Office of the State Treasurer:					
Severance Bonding Fund	41000-39400	Oil & Gas Accounting Suspense	1	83300-33300	342,316,693
Public Employees Retirement Association:					
PERA - Administration	60605-36600	PIT TAA Suspense Fund	1	64200-33300	1,000,000
Public Regulation Commission					
Firefighters Survivor Fund	56400-43000	Transportation & MVD Suspense	1	82500-33300	4,890
Regulation and Licensing Department					
Animal Shelter Fund	20120-42000	Transportation & MVD Suspense	1	82500-33300	26,912
Voluntary Contributions- Animal Shelter	42000-20120	Income Tax Suspense Fund	1	81900-33300	19,524
State Land Office:					
ONGARD/ Oil & Gas Royalty	26400-53900	Oil & Gas Accounting Suspense	1	83300-33300	15,826
Secretary of the State:					
Public Election Fund	81200-37000	Unclaimed Property Susp Fund	1	71000-33300	1,200,000
Workers Compensation Administration:					
Workers' Compensation Administration Fund	98200-63200	Workers' Compensation Suspense Fund	1	83100-33300	12,709,954
					<u>\$ 5,125,163,168</u>

Transfer Purpose

1 Transfers to other state agencies (beneficiaries) from the Taxation and Revenue Department's fiduciary funds as provided by New Mexico Statutes.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2017**

	Balance <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2017</u>
<u>ASSETS</u>				
Interest in State General Fund Investment Pool	\$ 687,555,138	24,726,645,598	25,243,695,858	170,504,878
Cash on hand and in banks	53,479	-	53,479	-
Receivables:				-
Counties, municipalities and fee agents	5,596,524	135,574	5,596,524	135,574
Due from state general fund	-	-	-	-
Due from other state agencies	4,739	-	4,739	-
Due from other non-agency funds	-	25,106,887	25,106,887	-
Due from taxpayers	820,014,624	7,308,890	665,998,046	161,325,468
Other receivables - stale dated warrants	-	-	-	-
Citations	3,411,951	-	3,411,951	-
Tax assessments	1,203,691,805	112,527	1,203,804,332	-
Allowance for uncollectibles	(1,207,214,275)	1,207,214,275	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$1,513,113,985	25,966,523,751	27,147,671,816	331,965,920
<u>LIABILITIES</u>				
Unidentified tax collections	\$ 231,200,067	231,200,067	-	-
Overdraft in Interest in SGFIP	14,964,259	1,636,832,140	1,621,898,509	30,628
Due to state general fund	-	-	-	-
Due to component units	11,233,103	11,233,103	13,846,235	13,846,235
Due to counties and municipalities	294,875,544	294,875,544	318,088,013	318,088,013
Due to other state agencies	887,887,427	901,199,525	13,312,098	-
Due to other funds	5,019,815	30,126,702	25,106,887	-
Refunds due to taxpayers	65,807,438	65,812,438	5,000	-
Due to external parties	-	-	-	-
Other liabilities - stale dated warrants	2,055,047	2,055,047	-	-
Accounts payable	71,285	70,241	-	1,044
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	\$1,513,113,985	3,173,404,807	1,992,256,742	331,965,920

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

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF CASH BALANCES
Year Ended June 30, 2017

Interest in the State General Fund Investment Pool

Account Name	Fund Type	DFA SHARE Acct No.	Bank Balance per State Treasurer	Adjustments Not in SHARE	Balance per Financial Statements
Governmental Funds:					
TRD - Operating Fund	Govt'l	17200 - 333	\$ 23,180,317	-	23,180,317
Restitution Fund	Agency	23600 - 333	-	-	-
Oil & Gas Ad Valorem	Agency	23800 - 333	-	-	-
Corporate Income Tax (CIT)	Agency	27900 - 333	31,750,046	-	31,750,046
Personal Income Tax (PIT)	Agency	64200 - 333	(76,101,178)	-	(76,101,178)
HazMat Fingerprinting	Agency	68000 - 333	-	-	-
County & Municipal Gasoline Tax	Agency	68100 - 333	642,842	-	642,842
County & Municipal Cigarette	Agency	68300 - 333	-	-	-
Small Cities Assistance	Agency	68400 - 333	-	-	-
Motor Transportation	Agency	70600 - 333	150,000	-	150,000
Local Liquor Excise Tax	Agency	70900 - 333	112,200	-	112,200
Unclaimed Property Suspense Fund	Agency	71000 - 333	3,239,281	-	3,239,281
Oil & Gas Ad Valorem	Agency	71300 - 333	549,584	-	549,584
Ad Valorem Equipment	Agency	71500 - 333	142	-	142
Income Tax Suspense Fund	Agency	81900 - 333	(127,161)	-	(127,161)
Transportation & Motor Vehicle	Agency	82500 - 333	591,735	-	591,735
Unidentified Remittances	Agency	82700 - 333	11,214	-	11,214
Enhanced 911 Surcharge	Agency	82800 - 333	28,233,921	-	28,233,921
Delinquency List Suspense	Agency	83000 - 333	3,551,746	-	3,551,746
Worker's Compensation	Agency	83100 - 333	5,126	-	5,126
CRS (TAA) Suspense Fund	Agency	83200 - 333	120,994,621	-	120,994,621
Oil and Gas Accounting	Agency	83300 - 333	27,690,316	-	27,690,316
Property Valuation Fund	S R	34800 - 333	427,810	-	427,810
Native American Fund	S R	10690 - 333	25,445	-	25,445
STB Capital Projects Fund	Capital	89200 - 333	275,085	-	275,085
Drive MVD Fund	Govt'l	79800 - 333	2,665,326	-	2,665,326
Weight Distance Tax Permit Fee Fund	Govt'l	99400 - 333	1,005,577	-	1,005,577
Total governmental funds			168,873,995	-	168,873,995
Fiduciary Funds:					
County & Municipal Gasoline Tax	Agency	68100 - 333	6,486,531	-	6,486,531
Small Cities Assistance	Agency	68400 - 333	6,357,360	-	6,357,360
Local Liquor Excise Tax	Agency	70900 - 333	251,874	-	251,874
Oil & Gas Ad Valorem	Agency	71300 - 333	20,420,066	-	20,420,066
Ad Valorem Equipment	Agency	71500 - 333	(30,628)	-	(30,628)
Transportation & Motor Vehicle	Agency	82500 - 333	1,665,620	-	1,665,620
CRS (TAA) Suspense Fund	Agency	83200 - 333	135,323,427	-	135,323,427
Total fiduciary funds			170,474,250	-	170,474,250
Total interest in the State General Fund Investment Pool			\$ 339,348,245	-	339,348,245

STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF CASH BALANCES
JUNE 30, 2017

Cash in Banks

As of June 30, 2017, reconciled motor vehicle field office cash in banks (checking accounts) totaled \$49,008 as follows:

<u>Name of Depository Bank</u>	<u>Account Name</u>	<u>Balance per Financial Statements</u>	<u>Bank Balance</u>
The First Natl Bank of New Mexico (Nara Visa)	NM Taxation & Revenue Department	\$ 12,175	12,175
Farmers & Stockmens Bank (Clayton MVD)	NM Taxation & Revenue Department	1,473	1,473
Farmers & Stockmens Bank (Clayton POE)	NM Taxation & Revenue Department	1,077	1,077
Western Bank (Lordsburg MVD)	NM Taxation & Revenue Department	3,950	3,950
Western Bank (Lordsburg POE)	NM Taxation & Revenue Department	30,333	30,333
Total cash in banks		<u>49,008</u>	<u>49,008</u>
Outstanding checks and adjustments		<u>-</u>	<u>-</u>
Petty Cash		1,450	
Cash on Hand - MVD Change Funds		23,653	
Total cash on hand		<u>25,103</u>	
Total cash on hand and in banks		<u>\$ 74,111</u>	<u>49,008</u>

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

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF JOINT POWERS AGREEMENTS
Year Ended June 30, 2017**

Participants	Administrative Agency	Description	Date of Agreement	Amount
TRD/NMSLO/EMNRD	TRD	Shared responsibility of the ONGARD System	1/4/2004-Indefinitely	***
*** The Tri-Agencies are responsible for the ONGARD Service Center and all expenses as allocated by the NM State Legislature				

SINGLE AUDIT

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Identifying Number	Passed Through to Subrecipients	Federal Expenditures
US Department of Interior: Audits of Oil and Gas Leases	15.427		\$ -	\$ 1,345,471
Total US Department of Interior				<u>1,345,471</u>
US Department of Transportation: CDL Project & Administration	20.232		-	128,504
Federal/State Motor Fuel Tax Compliance Grant	20.240	MFTE011	-	479
Total US Department of Transportation				<u>128,983</u>
Total Expenditures of Federal Awards				<u>\$ 1,474,454</u>

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017**

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the Taxation and Revenue Department under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, changes in net position or cash flow of the Department.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting which is described in Note 2 to the Department’s governmental fund financial statements. Such expenditures are recognized following the cost principles contained in *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. Taxation and Revenue Department used an indirect cost rate of 7.234 percent for FY17.

NOTE 3. NON-CASH ASSISTANCE

The Department did not receive any Federal non-cash assistance in fiscal year 2017.

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

John Monforte, Acting-Cabinet Secretary
New Mexico Taxation and Revenue Department
Honorable Susana Martinez, Governor
Wayne A. Johnson, New Mexico State Auditor
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the general fund, the budgetary comparisons for the general fund, and the aggregate remaining fund information of New Mexico Taxation and Revenue Department (Department), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 30, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be material weaknesses, listed as item 2017-001.

John Monforte, Acting-Cabinet Secretary
New Mexico Taxation and Revenue Department
Honorable Susana Martinez, Governor
Wayne A. Johnson, New Mexico State Auditor

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2017-002 through 2017-012.

The Department's Response to Findings

The Department's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Cost. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



CliftonLarsonAllen LLP

Albuquerque, New Mexico
October 30, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

John Monforte, Acting Cabinet Secretary
New Mexico Taxation and Revenue Department
Honorable Susana Martinez, Governor
Wayne A. Johnson, New Mexico State Auditor
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

We have audited New Mexico Taxation and Revenue Department's (Department) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2017. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Each Major Federal Program

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

John Monforte, Acting Cabinet Secretary
New Mexico Taxation and Revenue Department
Honorable Susana Martinez, Governor
Wayne A. Johnson, New Mexico State Auditor

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-002. Our opinion on each major federal program is not modified with respect to these matters.

The Department's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Department's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
October 30, 2017

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017**

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?

Yes No

- Significant deficiency(s) identified?

Yes None noted

Non-compliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified?

Yes No

- Significant deficiency(s) identified?

Yes No

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

Identification of Major Programs

CFDA Number Name of Federal Program or Cluster

15.427 US Department of Interior – Audits of Oil and Gas Leases

Dollar threshold used to distinguish between type A and type B programs

 750,000

Auditee qualified as low-risk auditee?

Yes No

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2017-001 Reversion to the State General Fund (Material Weakness)

Condition: During testwork over the fiscal year 2017 reversion, we noted the following:

- The Department did not submit the reversion to the State General Fund by September 30, 2017 as required by statute.
- The Department was unable to prepare the reversion timely, based on lack of historical documentation and understanding regarding the reversion calculation. We were asked to assist and review management's reversion calculation as management voiced uncertainties regarding the accuracy of the calculation.

Criteria: 6-5-10.A NMSA 1978 states "all unreserved undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert by September 30 to the general fund. The division may adjust the reversion within forty-five days of release of the audit report for that fiscal year."

Cause: The Department's reversion calculation was unnecessarily complex. Lack of documentation or procedures over the calculation.

Effect: Noncompliance with New Mexico Statute. Potential errors in reversion calculation.

Recommendation: We recommend the Department simplify the reversion calculation and establish written procedures.

Management's Response: The Department concurs with the finding. The Department is in the process of implementing changes to simplify reversion calculations and incorporate DFA's best practices. In addition, the Administrative Services Division is in process of drafting processes and procedures to address lack of documentation. This process will be completed by December 31, 2017.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

C. FEDERAL AWARD FINDINGS

2017-002 Federal Program Cash Management (Instance of Noncompliance)

Federal Program: CFDA 15.427 – Office of Natural Resources Revenue

Federal Agency: U.S. Department of Interior

Federal Award Number/Year: D12AC00006/2017

Questioned Costs: \$0

Condition: During our single audit testwork over cash management, we noted that 7 out of 13 requests for reimbursements were not submitted within 60 days of period end.

Criteria: Requests for reimbursement are due within 60 days of period end per the grant agreement.

Context: We identified the late reports by physical review of the submission date to the corresponding period ended. 100% of the population was reviewed.

Cause: Management oversight and staffing vacancies.

Effect: Noncompliance with federal requirements.

Auditors' Recommendation: We recommend management establish procedures to ensure timely reimbursement submissions.

Management's Response: The Department concurs with the finding. The Department's Financial Services Bureau is in process of filling vacancies with qualified staff to ensure timely submissions of the federal grant reimbursements and reporting. By June 2018, all positions will be filled. The Grant Administrator and Financial Services Bureau Chief are responsible in meeting the federal grant requirements for the Department.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

D. OTHER

2017-003 (Previously 2013-001) Information Technology – ONGARD Controls (Non-Compliance) Repeated and Modified

Condition: During our procedures over the ONGARD information technology system, we noted that due to ONGARD not being transactional in nature, the last transaction log is permanently recorded in a transaction log meaning that only the last change is available if auditing is necessary. If a new change occurs, the prior history of the change is overwritten.

Management's Progress for Repeat Finding 2013-001: The Taxation and Revenue Department is in the process of revising our vendor management policies to reflect the need to be informed on issues such as business continuity and disaster readiness. These requirements can be worked into a functional Service Level Agreement (SLA) with the Department of Information Technology (DoIT). This process is under way and scheduled for completion in Qtr. 1 CY 17.

Criteria: Per State of NM Statewide Guideline "Enterprise IT Security Policy", S-GUIDE-002.003, "the State of New Mexico shall securely and economically protect its business functions including public access to appropriate information and resources, while maintaining compliance with legal requirements established by existing Federal and State statutes pertaining to confidentiality privacy, accessibility, availability, and integrity."

Effect: Without a way to track and determine the status of data changed in ONGARD, there is potential that failures in data changes or unauthorized changes get overlooked.

Cause: Structure of existing database prevents strong audit trail.

Recommendation: We recommend that ONGARD be modernized to provide the ability to track history of data changes.

Management's Response: The Department concurs with the finding. The Severance Tax functionality will be implemented into GenTax, the system of record for all other Tax programs. The TRD GenTax Severance Tax project implementation is scheduled for a June 2018 completion.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

D. OTHER (CONTINUED)

2017-004 (Previously 2013-003) Information Technology – Overall IT Controls (Other Non-Compliance) Repeated and Modified

Condition: During our procedures over the overall information technology system, we noted the Department relies heavily on the Department of Information Technology (DoIT) for services. These services include but are not limited to backing up of data and disaster recovery plan exists for the mainframe and SHARE. The Department was unsure if mainframe or SHARE could be recovered in the event of a disaster and backup data is being taken off-site.

Management's Progress for Repeat Finding 2013-003: Management has initiated a migration plan for Severance Tax into GenTax. Implementation is scheduled for June 30, 2018.

Criteria: Per State of NM Statewide Guideline “Enterprise IT Security Policy”, S-GUIDE-002.003, “the State of New Mexico shall securely and economically protect its business functions including public access to appropriate information and resources, while maintaining compliance with legal requirements established by existing Federal and State statutes pertaining to confidentiality privacy, accessibility, availability, and integrity.”

Cause: The Department does not have formalized procedures in place regarding a disaster recovery plan.

Effect: The Department does not have control over the mainframe and SHARE and thus has reduced ability to influence the IT control environment.

Recommendation: We recommend the Department work with DoIT to gain an understanding of the disaster recovery plan and storage of backups. It would be prudent for the Department to be part of DoIT’s testing of the Disaster Recovery Plan to ensure the viability of the DoIT’s plan and the timeliness of its execution. In addition, it would be prudent for the Department to understand where backup data is being stored.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

D. OTHER (CONTINUED)

2017-004 (Previously 2013-003) Information Technology – Overall IT Controls (Other Non-Compliance) Repeated and Modified (Continued)

Management's Response: Management concurs with the finding. Management has already initiated a migration plan for Severance Tax into GenTax. Implementation is scheduled for June 30, 2018. The department's core systems (Tapestry and GenTax) are utilizing multiple database and system strategies to ensure disaster recovery. The department will develop a disaster recovery plan that includes an off-site facility and complete initial testing by June 30, 2018 and make a request for additional funds for the next budget year in order to develop a more thorough Disaster Recovery the following year.

2017-005 (Previously 2014-001) Untimely Deposits (Non-Compliance) Repeated and Modified

Condition: During our testwork over 23 days of cash receipts from MVD Field offices across the state, we noted one instance in which the field office did not make the deposit with the respective financial institution within the required period of time.

Management's Progress for Repeat Finding 2014-001: The Agency continues to look for solutions to assist in meeting the requirement. Due to the rural nature of parts of the state, it is sometimes difficult to meet the requirements. The Agency CFO working with the Division Director will explore issues and find solutions to the untimely deposits by December 31, 2017.

Criteria: Pursuant to Section 66-6-22.1 NMSA and state statute, Motor Vehicle Suspense, all monies collected daily must be deposited to the bank within 48 hours (2 business days.)

Cause: Due to the rural locations of the MVD field offices, it is challenging for the office staff to make the deposit within the necessary time period.

Effect: Noncompliance with the New Mexico Administrative Code.

Recommendation: We recommend the Department obtain an exemption from the current statute to allow more time for deposits with these rural locations.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

D. OTHER (CONTINUED)

2017-005 (Previously 2014-001) Untimely Deposits (Non-Compliance) Repeated and Modified (Continued)

Management's Response: The Department concurs with the finding. The agency continues to explore new processes, including software and hardware solutions to ensure compliance with the deposit rule. We do not recommend pursuing legislation as only a few offices are non-compliant. Legislation would have to be narrowed down to identify offices. The Agency CFO working with the Division Director will explore issues and find solutions to the untimely deposits by December 31, 2017.

2017-006 (Previously 2014-003) Use of State Issued Gas Credit Cards (Non Compliance) Repeated and Modified

Condition: During testwork over fiscal year 2017 gas card purchases, we identified 10 instances where a fuel type other than regular unleaded was purchased and one instance in which an oil change was purchased; these unallowable purchases amounted to approximately \$137.

Management's Progress for Repeat Finding 2014-003: The Agency has continually informed employees on the requirement to use unleaded regular fuel. The agency had labeled and identified the requirement for the use of "Unleaded Regular Gasoline" only on all documentation assigned to the vehicle so that employees are aware of the requirement. The account is reconciled monthly, violations identified and researched. Per the vendor, there is an issue between the vendor system and the individual fuel station. At times the receipt will read regular unleaded with the associated price; however, when the monthly bill is received there are instances where a regular unleaded purchase is identified as premium. It can only be correct by sending copies to the vendor to edit the report. As an agency we are noting the issue as part of our file. If there is a true violation of the policy, the Division Director is notified for review and action.

Criteria: NMAC 1.5.3.19 NMSA 1978 states that all fuel purchases must be for unleaded fuel and exception reports are to be reviewed on a monthly basis.

Cause: Lack of adherence to the Department policies and procedures by Department employees who use the WEX fuel cards.

Effect: Noncompliance with New Mexico Statutes.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

D. OTHER (CONTINUED)

**2017-006 (Previously 2014-003) Use of State Issued Gas Credit Cards (Non Compliance)
Repeated and Modified (Condition)**

Recommendation: We recommend the Department remind their employees of their policies and procedures pertaining to WEX fuel card usage and modify their internal controls to include documentation of the monthly reviews that are performed.

Management's Response: The Department concurs with the finding. The Administrative Services Division continuously addresses this issue through the vehicle coordinators reminding employees of the use of regular unleaded fuel and reduced the occurrences. Each vehicle folder is labeled identifying the use of "Unleaded Regular Fuel" only. The Financial Services Bureau vehicle coordinator reviews the Wex fuel statement monthly, comparing actual receipts to the statement detail. Any purchases outside of our policy and procedures are reported to the Division Director to review with the employee who has purchased un-authorized items. The Agency has also found that there have been discrepancies between actual receipts versus what is reported on the Wex fuel statement. After further review, we have found that the Wex fuel statement was incorrect and we have reported the discrepancy to Wex. Wex has offered to correct the error in reporting. This reporting error is in the communication between the independent fuel station and Wex and can only be corrected after sending copies of the fuel receipt to Wex,. The price of fuel has been verified as "Unleaded Gasoline." The Agency continues to monitor, report and inform all NM Taxation and Revenue Department employees of the requirement that unleaded fuel only is allowed. The CFO will continue to work with staff and employees to comply with the fuel card policy. ASD continues to notify Division Directors for action on policy enforcement.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

D. OTHER (CONTINUED)

2017-007 Procurement (Compliance and Other Matters)

Condition: During our review of accounts payable, we noted the following.

- Four instances of procurement activities that were not authorized and encumbered prior to the vendor commencing work.
- One instance in which there was no valid procurement method in place before the vendor work was authorized.
- One instance in which the contract compensation limit was exceeded and there was no valid procurement method in place after the limit was exceeded.

Criteria: 6-5-3 NMSA 1978 states, “before any vouchers or purchase orders are issued or contracts are entered into involving the expenditure of public funds by a state agency, the authority for the proposed expenditure shall be determined by the division and the state agency. After the authority for the expenditure is determined, the appropriate fund shall be shown by the division to be encumbered to the extent of the proposed expenditure.” New Mexico Procurement Code requires valid procurement to occur prior to vendor work being authorized.

Cause: Management oversight and internal turnover in purchasing and procurement.

Effect: Noncompliance with New Mexico Statutes.

Recommendation: We recommend the Department implement procures to insure compliance with the New Mexico Procurement Code and DFA MAPs.

Management’s Response: The Department concurs with the finding. The Chief Procurement Officer (CPO) will work directly with the Financial Services Bureau Chief and CFO in developing written processes to ensure that valid and authorized procurement documents are in place prior to vendor work is started and to monitor expenses with the program managers to ensure costs are monitored. The CPO has been tasked to prepare and complete Agency wide training to insure compliance with the New Mexico State Procurement Code. The CFO will work with Division Directors to identify employees in each Division that will be required to take “Procurement 101” offered by the State Procurement Department under General Services. A training plan and procedures will be completed by December 31, 2017.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

D. OTHER (CONTINUED)

2017-008 Review of Vendor System and Organization Control Reports (Compliance and Other Matters)

Condition: The Department has outsourced processes to vendors outside of the Department. At the end of the fiscal period, there was no review of vendors System and Organization Control (SOC) reports or security questionnaires and evaluations of the internal controls at the vendors.

Criteria: In accordance with ISACA's Control Objectives for Information and related Technology (COBIT) 5.0 framework (DSS05 Manage Security Services) provides the need to maintain the level of information security acceptable to the organization in accordance with the security policy. This policy includes establishing and maintaining vendor relationship and vendor management.

Cause: No completed review of the SOC reports for the fiscal year.

Effect: The Department is exposed to loss of revenue, reputation damage, disclosure of non-public data, loss of technology assets as a result of the following:

- Unauthorized access or inappropriate activity
- Known or unknown vendor relationships are not properly managed
- Department does not adequately assess risk associated with outsourcing services or management of services
- Department establishes a relationship with a vendor that does not support the Department's strategic objectives, provide services that are a core competency, illustrate financial stability, have appropriate personnel, adequate controls or assurance controls are effective.

Recommendation: The Department should perform the review of SOC reports or security questionnaires of the vendors and evaluate the vendor's internal controls and the impact on the Department own internal controls.

Management's Response: Management concurs with the finding. TRD Office of Internal Oversight will work with the CFO and CPO, and initiate a risk based approach to Vendor management compliance. Policies and procedures will be established by June 30, 2018 that will address critical vendors of the department.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

D. OTHER (CONTINUED)

2017-009 Tapestry User Access (Compliance and Other Matters)

Condition: The Department could not provide support of approval for all 25 tested new users added to Tapestry.

Criteria: In accordance with ISACA's Control Objectives for Information and related Technology (COBIT) 5.0 framework (DSS05 Manage Security Services) provides the need to maintain the level of information security acceptable to the organization in accordance with the security policy. This process includes establishing and maintaining security measures and related management procedures to protect information like approval for access is documented.

Cause: Moved the users to the Tapestry in bulk as Tapestry was becoming live.

Effect: Without appropriate documentation of user access request and approval of the request, unauthorized access may be granted to authorized or unauthorized users.

Recommendation: The Department should require that all required documentation and approval of access for Tapestry be obtained before granting access. In addition, all documentation should be retained to show an audit trail of the access being granted

Management's Response: The Department concurs with the finding. Management will set up a case management system in Tapestry to track adding, removing and modifying authorized user access to the system by December 31, 2017. This will include periodic reporting functions as well.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

D. OTHER (CONTINUED)

Finding 2017-010 Controls over Issuance of Credits for Taxpayers in a Managed Audit Process (Deficiency in Internal Control)

Condition: During our testwork, we noted that one county received a negative assessment in their Gross Receipts Tax Distribution for April 2017, resulting in a significant impact to the county's cash flows at the end of their fiscal year. This negative assessment was the result of the submission of 36 months of amended returns by a taxpayer participating in a managed audit process. The taxpayer's account was not flagged appropriately to process the amended credits and liabilities at the same time. Therefore when the taxpayer submitted all of the amended returns claiming refunds prior to submitting the amended returns reporting tax liabilities, the credits were processed resulting in a reduction of the amount of taxes collected and payable to the county.

Criteria: The use of a credit lock on a taxpayer's account prevents credits from being processed prior to the completion of a managed audit.

Cause: The Audit and Compliance Division did not place a credit lock on taxpayers participating in a managed audit process. The Revenue Processing Division processed and posted to the taxpayers account according to their process because they were not identified as being part of a managed audit.

Effect: The county did not receive their regular distribution, but instead received a negative assessment for one distribution cycle. The county did not receive the adjusted amount of the distribution until two months after their fiscal year end. . The error may have significantly impacted the county's cash flows.

Recommendation: The Department should remind Audit and Compliance Division employees of processes for managed audits including placing credit locks on taxpayers' accounts. The Department should ensure that amended credits claimed and amended tax liabilities reported as part of a managed audit are processed at the same time to avoid potential negative impacts on local governments and the state as beneficiaries.

Management's Response: The Department concurs with the finding. The Department is in the process of implementing controls to mitigate risks associated with amended credits and tax liabilities reported and processed by the Audit and Compliance Division and Revenue Processing Division. This process will be completed by December 31, 2017.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

D. OTHER (CONTINUED)

**Finding 2017-011 Reconciliation Process Related to Gross Receipt Tax Distributions
(Deficiency in Internal Control)**

Condition: During our testwork, we noted that although the reconciliation process of taxes collected and/or matched for Gross Receipts Taxes (GRT) Distribution cycle occurs *prior to* the money being distributed for each period, it is considered a post-close process. Therefore, differences, issues or concerns, if any, identified during the reconciliation process are not resolved prior to the distributions pertaining to the period in question. Rather, any reconciliation items are addressed in a subsequent month's distribution. As such, the current reconciliation processes does not prevent errors from occurring in the distribution cycle. The beneficiaries are not always made aware of the reasons for such adjustments in subsequent period(s) which from beneficiaries' perspective raises questions as to validity of the amounts received and potentially creates cash flow challenges.

A variance of \$1,342 was noted in the reconciliation performed for the November 2016 distribution cycle; however, after the distribution was made and the variance was reconciled, the error in the distribution resulted in approximately a \$14.2 million in net over and under distributions made to local governments.

Criteria: Section 6-5-2 NMSA 1978 requires state agencies to implement internal accounting controls designed to prevent accounting errors related to financial matters. In addition, state agencies are required to implement controls to prevent the submission of processing documents to the financial control division that contain errors.

Section 2.2.20.5.8 NMAC requires agencies to ensure all reporting of the financial information to be timely, complete and accurate.

Cause: Although the reconciliation is performed timely, the resolution of issues identified does not occur until after the actual distribution of funds. The Department has implemented a pre-close process, however, the amounts collected and/or matched during the revenue period will continue to change until the cycle is closed. The November distribution was the first distribution made after a system upgrade.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

D. OTHER (CONTINUED)

Finding 2017-011 Reconciliation Process Related to Gross Receipt Tax Distributions (Deficiency in Internal Control) (Continued)

Effect: Differences or issues noted during the reconciliation process are not resolved until a subsequent distribution cycle, resulting in potential incorrect payments.

Errors in the distribution cycle may result in significant over and/or under payments to beneficiaries. Beneficiaries may have cash flow issues due to large fluctuations in distributions.

Recommendation: The Department should develop and implement a process which would allow for variances and other issues noted in the reconciliation process to be addressed prior to the distribution payments. Additionally, the Department should communicate in a timely manner potential changes in distributions to local governments as soon as reconciliation issues are identified prior to the distribution. The Department should also include more information and relevant supporting documentation which would help to explain variations in the distribution amounts in its communications with the local governments.

Management's Response: The Department concurs that the monthly reconciliation of the gross receipts tax distribution reports is a post-close process and is an effective control used to ensure the integrity of distribution reporting by GenTax, our tax reporting system of record. The reconciliation process identified a difference in the distribution reports for November 2016. After research and analysis, an adjustment was made to the subsequent month distribution (as adjustments cannot be made within the same accounting period of after the period has closed) as authorized by Section 7-1-6.15 NMSA 1978 "Adjustments of distributions or transfers to municipalities or counties".

The November 2016 distribution did not constitute an accounting error related to documents submitted to DFA for payment, but was a distribution calculation adjustment identified by the Department. On December 16, 2016, the Department provided written notice to the local governments of this adjustment and its impact to their distribution as required in Section 7-1-6.15 NMSA 1978.

In addition, the Department has implemented comprehensive "pre-close" review processes to mitigate the risks of adjustments to gross receipts affecting local government distributions. The Financial Distribution Bureau works closely with other process owners to analyze and review anomalies of returns and payments that could lead to adjustments to a local government's distribution prior to the close of a revenue accounting period.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

D. OTHER (CONTINUED)

Finding 2017-012 Location Code Reporting In Gentax System Controls (Deficiency in Internal Control)

Condition: As a result of inquiries received from a local government, we noted that the Department did not have a control mechanism in place to prevent Combined Fuel Tax (CFT) returns from being filed without indicating the gallons distributed to each location code prior to fiscal year 2018. This inaccurate and incomplete filing of returns without the location codes by the distributors resulted in lost revenues to a local community, the amount of which has not been determined.

We also noted, the Department does not have a review function over the location code reporting in relation to the Combined Reporting System and specifically Gross Receipts Taxes. As a result, errors in location code reporting may occur and are unlikely to be identified by the Department. As a self-reporting state, the taxpayer is responsible for filing returns with the correct information. There is no control to prevent a taxpayer from intentionally or unintentionally filing a return with the wrong location code, and the Department would only become aware of the error if it is caught by the Audit and Compliance Division if they are already auditing the taxpayer, or otherwise brought to their attention. We reviewed location codes for eight contractors reported to be working on a jobsite in Taos County and noted five of the contractors were reporting under other location codes within Taos County. Of these contractors, one is likely to be working on multiple sites within the county, two were reporting to a local water district, one is delinquent, and the other two were reporting under one of the communities within the county (see table below.)

While the other location codes have a higher total GRT rate Taos County is receiving a smaller percentage of GRT.

<i>Location Code</i>	<i>Municipal Portion</i>	<i>County Portion</i>	<i>State Portion</i>	<i>Total</i>
Taos	1.6875%	1.5000%	5.1250%	8.3125%
Questa	1.5625%	1.5000%	5.1250%	8.1875%
Red River	1.8125%	1.5000%	5.1250%	8.4375%
Taos County	0.0000%	2.0000%	5.1250%	7.1250%

Source: January 2017 through June 2017 Enactment Tables available on the Department's website

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

D. OTHER (CONTINUED)

Finding 2017-012 Location Code Reporting In Gentax System Controls (Deficiency in Internal Control) (Continued)

Criteria: Section 7-1-6(B) NMSA 1978 indicates that money received or disbursed by the department shall be accounted for by the department as required by law or regulation of the secretary of finance and administration.

Section 7-1-6.9 NMSA 1978 outlines the distribution of fuel excise taxes which have been collected to the beneficiaries. An amount equal to ten and thirty-eight hundredths percent of the net receipts attributable to the taxes exclusive of penalties and interest shall be distributed with ninety percent is paid to the treasurers of municipalities and H class counties in the proportion that the taxable motor fuel sales in each municipalities and H class counties bears to the aggregate taxable motor fuel sales in all of these municipalities and H class counties and ten percent of the amount shall be paid to the treasurers of the counties, including H class counties, in the proportion that the taxable motor fuel sales outside of the incorporated municipalities in each of the counties bears to the aggregate taxable motor fuel sales outside of incorporated municipalities in all of the counties.

Per the instructions for the form RPD-41306, the filer is to complete Schedule 41306A which requires the distributor to list the gallons sold by location, whether in an incorporated municipality or in the remainder of the county. Additionally, the gallons listed in this schedule are required to tie to the gallons indicated on page two of the form RPD-41306. The schedule does not have a place to enter gallons distributed without a location code.

Section 6-5-2 NMSA 1978 requires that state agencies implement internal accounting controls designed to prevent accounting errors.

Cause: The Department did not have a control mechanism in place to prevent a CFT return from being filed without a location code. Additionally, the Department does not currently have the ability for the system to perform an audit function of the location codes reported for CRS and GRT returns. The Department did implement a control effective August 10, 2017 to prevent the system from accepting Combined Fuel Tax Returns without a location code reported. Due to the complexity of location code reporting, the Department has not implemented a method to review the accuracy location codes reported by taxpayers.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2017**

D. OTHER (CONTINUED)

Finding 2017-012 Location Code Reporting In Gentax System Controls (Deficiency in Internal Control) (Continued)

Effect: Since the fuel excise taxes collected are distributed based on the proportion of the total that a county or municipality represent of the total amount reported for the return period, communities do not receive their statutory share of the revenue if the filer does not list the fuel distributed to each location code correctly, or if this information is omitted entirely.

Inaccurate location codes may be resulting in inaccurate distributions to beneficiaries.

Recommendation: The Department should research, develop, and implement a method to review the location codes reported by taxpayers to help ensure accurate distributions.

Management's Response: The Department concurs in part with the finding. The Department currently has established processes in place to review the accuracy of location codes reported by the taxpayer through audit and compliance efforts. However, New Mexico is a self-reporting state. A tax return is presumed to be true and correct unless proven otherwise. Due to the complexity of various tax programs, legislative support and statutory changes may be required to implement a comprehensive project to validate location codes reported by the taxpayer. Management (Tax Policy) will reach out to other CRS states to determine whether there is an efficient process to review the accuracy of tax payer location codes.

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2017**

2013-001 (Renumbered as 2017-003) Information Technology –
ONGARD Controls.....Repeated

2013-003 (Renumbered as 2017-004) Information Technology –
Overall IT Controls.....Repeated

2014-001 (Renumbered as 2017-005) Untimely Deposits Repeated and Modified

2014-003 (Renumbered as 2017-006) Use of State Issued
Gas Credit Cards..... Repeated and Modified

2015-001 (Renumbered as 2016-006) Financial Review ProcessResolved

**STATE OF NEW MEXICO
TAXATION AND REVENUE DEPARTMENT
EXIT CONFERENCE
JUNE 30, 2017**

An exit conference was held with the State of New Mexico Taxation and Revenue Department (Department) on October 27, 2017. The conference was held at the Joseph M. Montoya Building in Santa Fe, New Mexico. In attendance were:

FOR THE DEPARTMENT:

John Monforte, Acting-Cabinet Secretary
Jim Hansen, Deputy Cabinet Secretary
Adolfo Montoya, ASD Deputy Director and CFO
Arianna Burger, Financial Services Bureau Chief
Raja Sambandam, Chief Security Officer
Jo Ann Chavez, Financial Distribution Bureau Chief
Sanjay Bhakta, Deputy State Auditor, Office of the State Auditor
Lynette Kennard, Audit Director, Office of the State Auditor
Lisa Jennings, Audit Supervisor, Office of the State Auditor

FOR CLIFTONLARSONALLEN LLP:

Georgie L. Ortiz, CPA, CGFM, Managing Principal
Victor Kraft, CPA, CFE, CGFM, Senior Associate

The Financial Statements were prepared by the Department with assistance from the IPA.