

**STATE OF NEW MEXICO
DEPARTMENT OF INFORMATION TECHNOLOGY
Santa Fe, New Mexico**

**FINANCIAL STATEMENTS
June 30, 2012**

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**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
OFFICIAL ROSTER
June 30, 2012**

Darryl Ackley, Department Secretary

Jacqueline J. Miller, Deputy Secretary

Charles Martinez, Chief Financial Officer



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Independent Auditors' Report

Mr. Darryl Ackley
State of New Mexico
Department of Information Technology
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparisons for the general fund and the major special revenue funds of the State of New Mexico Department of Information Technology (the Department) as of and for the year ended June 30, 2012, which collectively comprise the Department's basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons of the major enterprise funds presented as supplemental information as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The accounts receivable in fund 20310 as recorded in the general ledger does not agree to the subsidiary ledger. The Department is in the process of performing a complete reconciliation of the accounts receivable; however, as of the date of this report, the Department has not completed this reconciliation. As such, we could not satisfy ourselves as to the existence, completeness and accuracy of the accounts receivable in fund 20310.

As discussed in Note 1 to the financial statements, the financial statements of the Department are intended to present the respective financial position and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, and each major fund of the Department 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, 2012, and the changes in its financial position and its cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of such adjustments as might have been determined to be necessary had we been able to satisfy ourselves as to the existence, completeness and accuracy of the fund 20310 accounts receivable, stated at \$8,713,337, net of allowances, the

financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Department as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparisons for the enterprise funds of the Department for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and budgetary comparisons. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the financial statements. The additional schedules listed as other supplemental information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is

fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 17, 2012

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

The Management Discussion and Analysis of the State of New Mexico Department of Information Technology (the Department or DoIT) is designed to (a) assist the reader to focus on significant issues, (b) provide an overview of the Department's financial activity, (c) identify changes in the Department's financial position, (d) identify any material deviations from the financial plan (the approved budget), and (e) identify fund issues or concerns.

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

This section includes information on the use of the annual report, and management's analysis of the financial position and results of operations for the Department.

Overview of the Financial Statements

The basic financial statements used for a governmental entity's fair presentation in accordance with generally accepted accounting principles, include both information reported on a government-wide basis and information presented on a fund basis.

The Department's Basic Financial Statements (BFS) are presented in four parts, in the following order:

1. Government-Wide Financial Statements
2. Fund Financial Statements
3. Notes to the Basic Financial Statements
4. Required Supplementary and Other Supplementary Information

Government-Wide Financial Statements. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting for all activities. Information about the primary governmental activities and business-type activities are presented in separate columns with a total column that represents the total primary government.

The Government-wide financial statements include two basic financial statements - a statement of net assets and a statement of activities. These statements include the primary government but do not include fiduciary activities.

The statement of net assets presents assets, less liabilities, to arrive at net assets. The difference is labeled "net assets", not equity or fund balance. Assets and liabilities are presented in order of liquidity. Net assets are comprised of three components: invested in capital assets, net of related debt; restricted net assets and unrestricted net assets.

The objective of the statement of activities is to report the financial burden of each of the reporting government's functions on its taxpayers. It identifies the extent to which each function of the government draws from the general revenues or is self-financing through fees or intergovernmental aid. Expense presentation in the statement of activities presents expenses of governmental activities and business-type activities by functions which are provided by the Department's program and general revenues. This is intended to summarize and simplify the

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

user's analysis of the cost of services. Revenue presentation is distinguished between program revenues and general revenues. There are three categories into which program revenues are distinguished:

Charges for services - These are revenues based on exchange or exchange-like transactions. This type of program revenues arises from charges to customers who purchase, use, or directly benefit from the goods, services, or privileges provided.

Program-specific - These are revenues specific to grants and contributions.

Program-specific capital grants and contributions - These are resources restricted for capital purposes.

For the year ended June 30, 2012, the Department does not have capital grants and contributions. General revenues are all those revenues not to be reported as program revenues. General revenues are reported after total net expenses of the government's functions on the statement of activities. The governmental activities reflect the Department's basic services of administering the Information Technology Management Act and conducting the affairs of the Department.

Fund Financial Statements. The Fund Financial Statements that follow the government-wide financial statements report on the financial position and changes in financial position of the individual funds used by the Department. Funds are separate accounting entities used in government accounting to segregate transactions according to the sources of funding and to demonstrate legal compliance with the restrictions that may be imposed on those financial resources. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on major funds, within each fund type. The Department uses two fund types to account for its financial activities: Governmental funds and Proprietary funds.

Governmental funds are used to account for the finances of the governmental activities reported in the Government-Wide Financial Statements. The Department uses two types of governmental funds: a general fund to account for activities not required to be accounted for in other funds, and special revenue funds to account for activities with restricted fund resources. The balance sheet and statement of revenues, expenditures and changes in fund balance are the required financial statements for governmental fund types.

Proprietary funds are used to account for the Department's business-type activities. Because they share a common measurement focus and basis of accounting with the private sector business enterprises, proprietary funds use the same generally accepted accounting principles as similar businesses in the private sector. The Department uses one type of proprietary fund: enterprise funds. The Department's enterprise funds provide benefits to other state agencies, the federal government and local governments. The statement of net assets or balance sheet; statement of revenues, expenses, and changes in fund net assets or fund equity; and statement of cash flows are the required financial statements for proprietary fund types. General capital assets and general long-term debt are reported in proprietary funds.

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Notes to the Financial Statements. The notes to the basic financial statements are essential to the fair presentation of the financial position, results of operations, and where applicable cash flows. They provide detailed information to support and explain key financial information presented in the department-wide and fund financial statements. The notes provide information on the activities of the Department, on the basis of accounting used and on accounting policies reflected in the financial statements, in addition to clarifying key financial information. They are integral to understanding the financial statements.

Required Supplemental and Other Supplemental Information. Supplemental information such as management's discussion and analysis, statements, schedules, or other information that the GASB has determined to be necessary to supplement the basic statements or is provided to demonstrate compliance with these requirements and with State reporting requirements from Office of the State Auditor.

Financial Analysis of the Department as a Whole

Business-type Activities Net Assets. Table A-1 summarizes the Department's net assets for the fiscal year ended June 30, 2012. Net assets for business-type activities were \$77,523,122.

**Table A-1
The Department's Business-type Activities Net Assets**

	Business-Type Activities		
	FY2012	FY2011	Change
Assets:			
Current and other assets	\$ 36,173,582	\$ 35,941,891	\$ 231,691
Capital and non-current assets	<u>46,834,678</u>	<u>47,387,569</u>	<u>(552,891)</u>
Total assets	<u>\$ 83,008,260</u>	<u>\$ 83,329,460</u>	<u>\$ (321,200)</u>
Liabilities:			
Current liabilities	\$ 4,747,931	\$ 2,393,709	\$ 2,354,222
Long-term liabilities	<u>737,207</u>	<u>630,920</u>	<u>106,287</u>
Total liabilities	5,485,138	3,024,629	2,460,509
Net assets:			
Invested in capital assets	46,834,678	47,387,569	(552,891)
Restricted	24,901,261	18,438,936	6,462,325
Unrestricted	<u>5,787,183</u>	<u>14,478,326</u>	<u>(8,691,143)</u>
Total net assets	<u>77,523,122</u>	<u>80,304,831</u>	<u>(2,781,709)</u>
Total liabilities and net assets	<u>\$ 83,008,260</u>	<u>\$ 83,329,460</u>	<u>\$ (321,200)</u>

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Business-type Activities Changes in Net Assets. The Department's change in business-type net assets for fiscal year 2012 was a decrease of \$2,781,709 (Statement of Activities).

**Table A-2
Changes in the Department's Business-type Activities Net Assets**

	Business-Type Activities		
	FY2012	FY2011	Change
Revenues:			
Program revenues	\$ 46,167,227	\$ 50,659,932	\$ (4,492,705)
General revenues	13,958	8,209	5,749
Total revenues	46,181,185	50,668,141	(4,486,956)
Expenses:			
Central Telephone Service	44,689,504	41,220,053	3,469,451
ISD-OIP Human Resource	6,499,872	5,618,635	881,237
Loss on disposal of assets	4,170	-	4,170
Program support	3,111,516	3,159,834	(48,318)
Total expenses	54,305,062	49,998,522	4,306,540
Excess (deficiency) before transfers	(8,123,877)	669,619	(8,793,496)
Internal transfers of capital assets	5,833,968	3,486,138	2,347,830
Transfers in	103,200	125,590	(22,390)
Transfers out	(595,000)	(582,900)	(12,100)
Changes in net assets	(2,781,709)	3,698,447	(6,480,156)
Beginning net assets	80,304,831	76,606,384	3,698,447
Ending net assets	<u>\$ 77,523,122</u>	<u>\$ 80,304,831</u>	<u>\$ (2,781,709)</u>

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Governmental Activities Net Assets. Table A-3 summarizes the Department's net assets for the fiscal year ended June 30, 2012. Net assets for governmental activities were \$13,688,057.

**Table A-3
The Department's Governmental Activities Net Assets**

	<u>Governmental Activities</u>		
	<u>FY2012</u>	<u>FY2011</u>	<u>Change</u>
Assets:			
Current and other assets	\$ 5,629,600	\$ 6,468,824	\$ (839,224)
Capital and non-current assets	<u>13,717,186</u>	<u>6,155,174</u>	<u>7,562,012</u>
Total assets	<u>\$ 19,346,786</u>	<u>\$ 12,623,998</u>	<u>\$ 6,722,788</u>
Liabilities:			
Current liabilities	\$ 5,633,462	\$ 2,206,755	\$ 3,426,707
Long-term liabilities	<u>25,267</u>	<u>47,187</u>	<u>(21,920)</u>
Total liabilities	5,658,729	2,253,942	3,404,787
Net assets:			
Invested in capital assets	13,717,186	6,155,174	7,562,012
Restricted	-	4,214,882	(4,214,882)
Unrestricted	<u>(29,129)</u>	<u>-</u>	<u>(29,129)</u>
Total net assets	<u>13,688,057</u>	<u>10,370,056</u>	<u>3,318,001</u>
Total liabilities and net assets	<u>\$ 19,346,786</u>	<u>\$ 12,623,998</u>	<u>\$ 6,722,788</u>

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Governmental Activities Changes in Net Assets. The Department's change in assets for governmental activities for fiscal year 2012 was a decrease of \$3,318,001 (Statement of Activities). Approximately 3.1% of the Department's governmental revenue comes from State General Fund Appropriations.

**Table A-4
Changes in the Department's Governmental Activities Net Assets**

	<u>Governmental Activities</u>		
	<u>FY2012</u>	<u>FY2011</u>	<u>Change</u>
Revenues:			
Program revenues	\$ 13,394,269	\$ 1,466,585	\$ 11,927,684
General revenues	<u>2,043,701</u>	<u>3,360,352</u>	<u>(1,316,651)</u>
Total revenues	15,437,970	4,826,937	10,611,033
Expenses:			
Radio Communications	-	13,741	(13,741)
Broadband Technology	3,038,641	1,480,692	1,557,949
Information Technology Management Center for Advanced Computing	368,800	526,727	(157,927)
	<u>2,775,360</u>	<u>2,662,233</u>	<u>113,127</u>
Total expenses	<u>6,182,801</u>	<u>4,683,393</u>	<u>1,499,408</u>
Excess (deficiency) before transfers	9,255,169	143,544	9,111,625
Internal transfers of capital assets	(5,833,968)	(3,486,138)	(2,347,830)
Transfers out	<u>(103,200)</u>	<u>(515,324)</u>	<u>412,124</u>
Changes in net assets	3,318,001	(3,857,918)	7,175,919
Beginning net assets	<u>10,370,056</u>	<u>14,227,974</u>	<u>(3,857,918)</u>
Ending net assets	<u>\$ 13,688,057</u>	<u>\$ 10,370,056</u>	<u>\$ 3,318,001</u>

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Financial Analysis of Overall Financial Position and Results of Operations

Governmental activities increased the Department's net assets by \$3,318,001 and enterprise activities decreased the Department's net assets by \$2,781,709. Key elements of these changes are as follows:

Governmental Activities. Governmental activities increased the Department's net assets by \$3,318,001, primarily due to a large increase in federal revenue from expenditures of federal funds from the BTOP grant for capital assets and accumulation of construction in progress balances. Other financing uses increased due to transfers of capital assets from a governmental fund (SHARE 20340) to an enterprise fund (SHARE 20310) in the amount of \$5,833,968. In addition, the Department transferred \$2,775,360 to the New Mexico Computing Applications Center for staffing and operating expenses associated with the State Center for Advanced Computing. Internal funds transfers for program support were \$103,200.

Enterprise Activities. Total revenues decreased by \$4,486,955 comparing fiscal year 2012 revenues to fiscal year 2011 revenues, primarily due to the reduced rates and a decrease in utilization by agencies.

Capital Asset and Debt Administration

Capital Assets. The Department's net investment in capital assets totaled \$60,551,864 at June 30, 2012. Amounts reflected in this category are not available to fund future spending. The Department uses these assets to provide services.

The Department's investment in capital assets as of June 30, 2012 amounts to \$13,717,186 for its governmental activities and \$46,834,678 for its business-type activities (net of accumulated depreciation). The capitalization policy for the Department establishes a threshold of \$5,000, which is in accordance with State statutes. Depreciation expense in fiscal year 2012 was \$13,046,843 compared with \$11,867,694 in fiscal year 2011. Capital assets primarily consist of radio and telecommunications infrastructure, as well as information technology equipment that are used primarily by governmental units within the State of New Mexico. The use of the equipment and infrastructure via depreciation is built into the rate structure and charged to the customers over the life of the asset.

Long-Term Debt. At the end of the current fiscal year, the Department had a total long-term debt outstanding of \$762,474. This amount is due to compensated absences for employees, which consist of accumulated balances for annual leave and sick leave eligible for payment to employees upon termination of their employment, but which is not expected to be paid until after one year.

General Fund Budget and Transaction Highlights

The Department's approved budget for the Information Technology Management Office (Fund 20370) was \$368,800, inclusive of other financing uses for fiscal year 2012. Section 10 of the Appropriations Act forced budget reductions during the course of the year due to unfavorable revenue forecast projections by the State. Budgetary basis expenditures and other financing uses were \$472,000. Personnel costs accounted for 78.1% of the year's expenditures and other financing uses, while other financing sources accounted for 21.9%.

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Accomplishments

In FY 2012, the Department has numerous accomplishments of which it can boast. Primarily, the Department continued to provide robust, secure and modern enterprise IT services to the state agencies and entities that it was created to serve. In the majority of these cases, these services were delivered within very tight performance metrics, and with increased service levels at a reduced per-unit cost. The Department also continued to provide value-added and comprehensive oversight of all IT projects and procurements throughout the state, providing a single and coherent point-of-contact for these activities at an executive level. (This oversight included 71 projects at a total value of \$349,910,903.14.) In addition to these accomplishments with respect to the core mission, there are several noteworthy accomplishments worth discussing here:

- The execution of a \$38M federal grant to upgrade and advance the state of public-safety radio communications in the state. This grant is two-fold: (1) providing for the completion of a digital upgrade of the state's microwave broadband network; and (2) the early deployment of a 700Mhz LTE public-safety wireless network in the 'D' block spectrum. Executed a contract for professional engineering services to independently inspect civil construction sites – 8 inspections at each site. Construction began at over 20 sites during the quarter. Two are nearing completion. Radio System Training for State and Contractor personnel was conducted with Certification Test administered. While the LTE portion of the grant has been temporarily suspended pending action by a the FirstNet Board as required in recent federal legislation, progress on the broadband infrastructure will be completed to support connectivity statewide.
- The related application, award, and execution of a \$5M federal grant to provide broadband mapping and planning for the state of New Mexico. As a result of this program: (1) datasets are being developed to support initiatives such as telehealth and distance learning; (2) data has been made available to Emergency management staff to help in response to events such as wildfires and floods.
- Streamlined the Agency IT Planning process to: (1) enable agency IT organizations to better align to their agency Plan; (2) separated reporting elements from actual planning elements; (3) reduce redundancy.

The execution of a number of strategic enterprise-service improvements, to include: (1) Completed three Disaster Recovery tests (1 partial IPLable standalone MVS2 system Feb., 1 full recovery 99% w no client testing May, 1 full recovery 100% with client end to end testing June 2012); (2) Completed mainframe upgrades; includes all sub-systems products (security, tape management, output dispatching, testing utilities, sort utilities, problem determination utilities, file aids, test system hyper station, Communication tools, optimizing and monitoring tools) (3) planning and implementation of an upgrade to the central telephone system enabling deployment of VoIP and many other new technologies and services; and (4) the first-phase execution of a stabilization project associated with the state's SHARE system. (5) upgrade and virtualization of the Enterprise Email system.

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Currently Known Facts and Decisions

During fiscal year 2012, the agency leadership has worked to develop a focus and mission for the organization based on several key competencies. The agency will strive to create a fabric on which our customer agencies can build applications and systems to support their mission. The focus on customer service has and will continue to be a focus of this administration and the DoIT as a whole.

The Department received Broadband Technology Opportunity Program (BTOP) federal grant funding for a project that will help bridge the broadband divide by delivering broadband access or awareness to the citizens of New Mexico. The National Telecommunications and Information Administration (NTIA) has worked in partnership with DoIT to deliver services to communities around the state. This BTOP grant is administered through BTOP Program, NTIA, US Department of Commerce and is funded by the American Recovery and Reinvestment Act of 2009 in the amount of \$38.7 million dollars to be spent over the next two years. DoIT has provided a match the federal grant with \$17.0 million state monies, which came from cash and in-kind contributions. In addition, term staff has been hired to administer and fulfill the grant requirements at DoIT. The program is 54% complete and on schedule and budget for the primary portion of the program. A small portion of the funding to support a pilot has been suspended by the NTIA. The Agency will continue to work closely with our federal partners to ensure the funding is maintained in the best interests of both the State and Federal Governments.

The Department has continued the use of the subsidiary accounting system known as GEAC to account for capital assets transferred from GSD and accounts receivable activity. The Department is looking into the acquisition of a new capital asset and accounts receivable system that will meet all accounting requirements and assist management in being able to better manage the capital assets and accounts receivable.

In summary, the current technical service model concept structure at DoIT does not support the needed change to keep DoIT current with industry standards. The horizontal and vertical organizational design changes to implement the customer service model are required to fulfill the enterprise business operations' needs. This type of paradigm shift in an enterprise fund-driven operational structure cannot be completed within the current organizational structure of DoIT. Additionally, this re-organization concept is in alignment with DoIT statutory authority, and dovetails into the DoIT FY11 Strategic Plan and the State of New Mexico IT Strategic Plan for FY11 thru FY13.

Request for Information

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Information Technology, 715 Alta Vista Street, Santa Fe, New Mexico 87505.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current:			
Investment in State General			
Fund Investment Pool	\$ 7,430	\$ 27,240,035	\$ 27,247,465
Due from federal government	5,184,046	-	5,184,046
Due from other state agencies	434,244	2,997	437,241
Internal balances	3,880	(3,880)	-
Accounts receivable, net	-	8,933,421	8,933,421
Other assets	-	1,009	1,009
Total current assets	<u>5,629,600</u>	<u>36,173,582</u>	<u>41,803,182</u>
Capital assets	24,539,133	154,830,023	179,369,156
Less accumulated depreciation	<u>(10,821,947)</u>	<u>(107,995,345)</u>	<u>(118,817,292)</u>
Total capital assets, net	<u>13,717,186</u>	<u>46,834,678</u>	<u>60,551,864</u>
TOTAL ASSETS	<u>\$ 19,346,786</u>	<u>\$ 83,008,260</u>	<u>\$ 102,355,046</u>
LIABILITIES			
Investment in State General			
Fund Investment Pool Overdraft	\$ 4,555,436	\$ -	\$ 4,555,436
Accounts payable	1,048,781	3,922,756	4,971,537
Accrued payroll and benefits	25,374	532,419	557,793
Due to other state agencies	9	137,800	137,809
Compensated absences payable:			
Due within one year	3,862	154,956	158,818
Due after one year	<u>25,267</u>	<u>737,207</u>	<u>762,474</u>
Total liabilities	5,658,729	5,485,138	11,143,867
NET ASSETS			
Invested in capital assets	13,717,186	46,834,678	60,551,864
Restricted for:			
Capital replacement	-	24,901,261	24,901,261
Unrestricted	<u>(29,129)</u>	<u>5,787,183</u>	<u>5,758,054</u>
Total net assets	<u>13,688,057</u>	<u>77,523,122</u>	<u>91,211,179</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,346,786</u>	<u>\$ 83,008,260</u>	<u>\$ 102,355,046</u>

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

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT			
Governmental Activities:			
Broadband Technology	\$ 3,038,641	\$ -	\$ 13,394,269
Information Technology Management	368,800	-	-
Center for Advanced Computing	2,775,360	-	-
Total governmental activities	6,182,801	-	13,394,269
Business-type Activities:			
Central Telephone Service	44,689,504	39,720,278	-
ISD-OIP Human Resource	6,499,872	6,445,841	-
Program support	3,111,516	1,108	-
Total business-type activities	54,300,892	46,167,227	-
TOTAL PRIMARY GOVERNMENT	\$ 60,483,693	\$ 46,167,227	\$ 13,394,269

General revenues and transfers:

- State general fund appropriations
- Investment income
- Loss on disposal of assets
- Severance tax bonds
- Internal transfers of capital assets
- Internal fund transfers
- Other transfers

Total general revenues and transfers

CHANGE IN NET ASSETS

NET ASSETS, BEGINNING OF YEAR

NET ASSETS, END OF YEAR

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities		Business-type Activities		Total
\$	10,355,628	\$	-	\$ 10,355,628
	(368,800)		-	(368,800)
	<u>(2,775,360)</u>		<u>-</u>	<u>(2,775,360)</u>
	7,211,468		-	7,211,468
	-	(4,969,226)		(4,969,226)
	-	(54,031)		(54,031)
	<u>-</u>	<u>(3,110,408)</u>		<u>(3,110,408)</u>
	<u>-</u>	<u>(8,133,665)</u>		<u>(8,133,665)</u>
	7,211,468	(8,133,665)		(922,197)
	472,000	-		472,000
	-	13,958		13,958
	-	(4,170)		(4,170)
	1,571,701	-		1,571,701
	(5,833,968)	5,833,968		-
	(103,200)	103,200		-
	<u>-</u>	<u>(595,000)</u>		<u>(595,000)</u>
	<u>(3,893,467)</u>	<u>5,351,956</u>		<u>1,458,489</u>
	3,318,001	(2,781,709)		536,292
	<u>10,370,056</u>	<u>80,304,831</u>		<u>90,674,887</u>
\$	<u>13,688,057</u>	\$	<u>77,523,122</u>	\$ <u>91,211,179</u>

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

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2012

	<u>General Fund</u>	<u>Major Funds</u>			
	Information Technology Management Office (20370)	Center for Advanced Computing (20350)	Radio Communications (20340)	ARRA Fund (89000)	Total Governmental Funds
ASSETS					
Investment in State General Fund Investment Pool	\$ 7,430	\$ -	\$ -	\$ -	\$ 7,430
Due from federal government	-	-	-	5,184,046	5,184,046
Due from other state agencies	-	-	434,244	-	434,244
Due from other funds	14,444	-	-	-	14,444
TOTAL ASSETS	\$ 21,874	\$ -	\$ 434,244	\$ 5,184,046	\$ 5,640,164
LIABILITIES					
Investment in State General Fund Investment Pool Overdraft	\$ -	\$ -	\$ 434,244	\$ 4,121,192	\$ 4,555,436
Accounts payable	-	-	-	1,048,781	1,048,781
Accrued payroll and benefits	11,301	-	-	14,073	25,374
Due to other funds	10,564	-	-	-	10,564
Due to other state agencies	9	-	-	-	9
Total liabilities	21,874	-	434,244	5,184,046	5,640,164
FUND BALANCES					
Restricted for radio communications projects	-	-	-	-	-
Total fund balances	-	-	-	-	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 21,874	\$ -	\$ 434,244	\$ 5,184,046	\$ 5,640,164

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

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

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS (GOVERNMENTAL FUNDS BALANCE SHEET)	\$ -
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

The cost of capital assets is:	24,539,133
Accumulated depreciation is:	<u>(10,821,947)</u>

Total capital assets	13,717,186
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Compensated absences payable are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(29,129)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES (STATEMENT OF NET ASSETS)	<u>\$ 13,688,057</u>
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The accompanying notes are an integral part of the financial statements.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	General Fund	Major Funds			Total Governmental Funds
	Information Technology Management Office (20370)	Center for Advanced Computing (20350)	Radio Communications (20340)	ARRA Fund (89000)	
REVENUES					
Federal operating grants	\$ -	\$ -	\$ -	\$ 13,394,269	\$ 13,394,269
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,394,269</u>	<u>13,394,269</u>
EXPENDITURES					
Compensation and benefits	368,800	-	-	345,894	714,694
Contractual services	-	-	-	2,575,738	2,575,738
Other costs	-	-	-	124,132	124,132
Capital outlay	-	-	5,833,968	10,348,505	16,182,473
Total expenditures	<u>368,800</u>	<u>-</u>	<u>5,833,968</u>	<u>13,394,269</u>	<u>19,597,037</u>
Excess (deficiency) of revenues over (under) expenditures	(368,800)	-	(5,833,968)	-	(6,202,768)
OTHER FINANCING SOURCES (USES)					
State general fund appropriations	472,000	-	-	-	472,000
Severance tax bonds	-	-	1,571,701	-	1,571,701
Transfers out :					
Interfund (program support assessment)	(103,200)	-	-	-	(103,200)
Other	-	-	-	-	-
Total other financing sources	<u>368,800</u>	<u>-</u>	<u>1,571,701</u>	<u>-</u>	<u>1,940,501</u>
NET CHANGE IN FUND BALANCES	-	-	(4,262,267)	-	(4,262,267)
FUND BALANCES, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>4,262,267</u>	<u>-</u>	<u>4,262,267</u>
FUND BALANCES, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES)	\$ (4,262,267)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

Capital outlay	16,182,473
Depreciation expense	<u>(2,786,493)</u>
Excess of capital outlay over depreciation expense	13,395,980

Internal transfers of capital assets from government fund to enterprise fund.	(5,833,968)
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Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences	<u>18,256</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (STATEMENT OF ACTIVITIES)	<u>\$ 3,318,001</u>
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The accompanying notes are an integral part of the financial statements.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS
BUDGET AND ACTUAL
Year Ended June 30, 2012

<u>INFORMATION TECHNOLOGY MANAGEMENT OFFICE (20370)</u>				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES				
State General fund	\$ 472,000	\$ 472,000	\$ 472,000	\$ -
Total revenues	472,000	472,000	472,000	-
EXPENDITURES				
Personal services	368,800	368,800	368,800	-
Other	-	-	-	-
Total expenditures	368,800	368,800	368,800	-
OTHER FINANCING SOURCES (USES)				
Other financing uses	(103,200)	(103,200)	(103,200)	-
Total other financing sources	(103,200)	(103,200)	(103,200)	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
REVERSION EXPENSE				
			-	
CHANGE IN FUND BALANCE PER STATEMENT OF REVENUES AND EXPENDITURES (GAAP BASIS)				
			<u>\$ -</u>	

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

CENTER FOR ADVANCED COMPUTING (20350)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES				
Prior year fund balance	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
EXPENDITURES				
Other	-	-	-	-
Total expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Other financing sources	-	-	-	-
Other financing uses	-	-	-	-
Total other financing sources	-	-	-	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
PRIOR YEAR FUND BALANCE NOT REVENUE FOR GAAP PURPOSES			-	
REVERSION EXPENSE			-	
CHANGE IN FUND BALANCE PER STATEMENT OF REVENUES AND EXPENDITURES (GAAP BASIS)			<u>\$ -</u>	

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

	RADIO COMMUNICATIONS (20340)			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts	Final Budget
			(Budgetary Basis)	Positive (Negative)
REVENUES				
Prior year fund balance	\$ 4,262,267	\$ 4,262,267	\$ 4,262,267	\$ -
Total revenues	4,262,267	4,262,267	4,262,267	-
EXPENDITURES				
Personal services	-	-	-	-
Contractual services	859,874	159,875	-	159,875
Other	5,211,223	5,911,222	5,833,968	77,254
Total expenditures	6,071,097	6,071,097	5,833,968	237,129
OTHER FINANCING SOURCES (USES)				
Other financing sources	1,808,830	1,808,830	1,571,701	(237,129)
Total other financing sources	1,808,830	1,808,830	1,571,701	(237,129)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	\$ -	\$ -	-	\$ -
FUND BALANCE NOT REVENUE FOR GAAP PURPOSES				
			(4,262,267)	
REVERSION EXPENSE				
			-	
CHANGE IN FUND BALANCE PER STATEMENT OF REVENUES AND EXPENDITURES (GAAP BASIS)				
			\$ (4,262,267)	

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS
BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2012**

AMERICAN RECOVERY AND REINVESTMENT ACT (89000)				
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts	Final Budget
			(Budgetary Basis)	Positive (Negative)
REVENUES				
Federal funds *	\$ 39,225,980	\$ 42,102,885	13,393,269	\$ (28,709,616)
Total revenues	39,225,980	42,102,885	13,393,269	(28,709,616)
EXPENDITURES				
Personal services	1,210,474	1,590,554	345,894	1,244,660
Contractual services	10,740,663	13,191,488	2,575,738	10,615,750
Other	27,328,477	27,374,477	10,472,637	16,901,840
Total expenditures	39,279,614	42,156,519	13,394,269	28,762,250
OTHER FINANCING SOURCES (USES)				
Other financing sources	53,634	53,634	1,000	(52,634)
Total other financing sources	53,634	53,634	1,000	(52,634)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	\$ -	\$ -	\$ -	\$ -

* Federal funds received as pass-through are budgeted as other financing sources and are classified as federal revenue on the statement of revenues, expenditures and changes in fund balance.

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

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
STATEMENT OF NET ASSETS - ENTERPRISE FUNDS
June 30, 2012

	<u>Central Telephone Service (20310)</u>	<u>ISD-OIP-Human Resources (20360)</u>
ASSETS		
Current assets:		
Investment in State General Fund Investment Pool	\$ 10,013,313	\$ 1,816,691
Accounts receivable	8,713,337	220,084
Due from other state agencies	-	-
Due from other funds	58,578	3,687
Other assets	<u>482</u>	<u>-</u>
Total current assets	18,785,710	2,040,462
Capital assets, net:		
Buildings and improvements	13,377,231	-
Auto and trucks	24,078	-
Machinery and equipment	9,944,102	-
Data processing	6,133,265	16,433,803
Construction in Progress	889,856	-
Furniture and fixtures	<u>32,343</u>	<u>-</u>
Total capital assets, net	<u>30,400,875</u>	<u>16,433,803</u>
TOTAL ASSETS	<u>\$ 49,186,585</u>	<u>\$ 18,474,265</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 3,253,494	\$ 4,307
Accrued payroll and benefits	374,256	40,644
Compensated absences, current	118,123	8,134
Due to other funds	6,755,556	3,762,548
Due to other state agencies	<u>137,800</u>	<u>-</u>
Total current liabilities	10,639,229	3,815,633
Non-current liabilities:		
Compensated absences, long-term	<u>532,289</u>	<u>51,523</u>
Total liabilities	11,171,518	3,867,156
NET ASSETS		
Invested in capital assets	30,400,875	16,433,803
Restricted for capital replacement	-	-
Unrestricted	<u>7,614,192</u>	<u>(1,826,694)</u>
Total net assets	<u>38,015,067</u>	<u>14,607,109</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 49,186,585</u>	<u>\$ 18,474,265</u>

Program Support (20320)	Equipment Replacement Fund (96880)	Equipment Replacement Fund (96870)	Total
\$ 139,724	\$ 7,395,383	\$ 7,874,924	\$ 27,240,035
-	-	-	8,933,421
-	1,478	1,519	2,997
239,958	6,525,454	3,748,965	10,576,642
527	-	-	1,009
<u>380,209</u>	<u>13,922,315</u>	<u>11,625,408</u>	<u>46,754,104</u>
-	-	-	13,377,231
-	-	-	24,078
-	-	-	9,944,102
-	-	-	22,567,068
-	-	-	889,856
-	-	-	32,343
<u>-</u>	<u>-</u>	<u>-</u>	<u>46,834,678</u>
<u>\$ 380,209</u>	<u>\$ 13,922,315</u>	<u>\$ 11,625,408</u>	<u>\$ 93,588,782</u>
\$ 18,493	\$ 646,462	\$ -	\$ 3,922,756
117,519	-	-	532,419
28,699	-	-	154,956
62,418	-	-	10,580,522
-	-	-	137,800
<u>227,129</u>	<u>646,462</u>	<u>-</u>	<u>15,328,453</u>
<u>153,395</u>	<u>-</u>	<u>-</u>	<u>737,207</u>
<u>380,524</u>	<u>646,462</u>	<u>-</u>	<u>16,065,660</u>
-	-	-	46,834,678
-	13,275,853	11,625,408	24,901,261
(315)	-	-	5,787,183
<u>(315)</u>	<u>13,275,853</u>	<u>11,625,408</u>	<u>77,523,122</u>
<u>\$ 380,209</u>	<u>\$ 13,922,315</u>	<u>\$ 11,625,408</u>	<u>\$ 93,588,782</u>

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

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS
Year Ended June 30, 2012

	<u>Central Telephone Service (20310)</u>	<u>ISD-OIP-Human Resources (20360)</u>
OPERATING REVENUES		
User fees	\$ 38,793,361	\$ 6,445,787
Other revenues	<u>926,917</u>	<u>54</u>
Total revenues	39,720,278	6,445,841
OPERATING EXPENSES		
Personal services	9,897,033	891,558
Contractual services	5,839,866	1,300,082
Other costs	22,441,220	559,267
Depreciation expense	<u>6,511,385</u>	<u>3,748,965</u>
Total operating expenses	<u>44,689,504</u>	<u>6,499,872</u>
Operating loss	(4,969,226)	(54,031)
NON-OPERATING REVENUES (EXPENSES)		
Investment income	-	-
Loss on disposal of capital assets	<u>(4,170)</u>	<u>-</u>
Total non-operating expenses	<u>(4,170)</u>	<u>-</u>
Income (loss) before transfers	<u>(4,973,396)</u>	<u>(54,031)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in :		
Interfund (program support assessment)	-	-
Interfund (transfer of capital assets)	9,645,951	-
Interfund (equipment replacement)	-	-
Interfund (closeout fund 20330 to 20310)	-	-
Transfers out :		
Interfund (program support assessment)	(9,340,238)	(3,927,005)
Interfund (transfer of capital assets)	-	-
Interfund (equipment replacement)	-	-
Interfund (closeout fund 20330 to 20310)	-	-
Other	<u>-</u>	<u>(595,000)</u>
Total other financing sources (uses)	<u>305,713</u>	<u>(4,522,005)</u>
CHANGE IN NET ASSETS	(4,667,683)	(4,576,036)
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>42,682,750</u>	<u>19,183,145</u>
TOTAL NET ASSETS (DEFICIT), END OF YEAR	<u>\$ 38,015,067</u>	<u>\$ 14,607,109</u>

Program Support (20320)	Equipment Replacement Fund (96880)	Equipment Replacement Fund (96870)	Total
\$ -	\$ -	\$ -	\$ 45,239,148
<u>1,108</u>	<u>-</u>	<u>-</u>	<u>928,079</u>
1,108	-	-	46,167,227
2,839,528	-	-	13,628,119
36,701	-	-	7,176,649
235,287	-	-	23,235,774
<u>-</u>	<u>-</u>	<u>-</u>	<u>10,260,350</u>
<u>3,111,516</u>	<u>-</u>	<u>-</u>	<u>54,300,892</u>
(3,110,408)	-	-	(8,133,665)
-	6,876	7,082	13,958
<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,170)</u>
-	6,876	7,082	9,788
<u>(3,110,408)</u>	<u>6,876</u>	<u>7,082</u>	<u>(8,123,877)</u>
3,110,093	-	-	3,110,093
-	-	-	9,645,951
-	6,511,385	3,748,965	10,260,350
-	-	-	-
-	-	-	(13,267,243)
-	(3,811,983)	-	(3,811,983)
-	-	-	-
-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>(595,000)</u>
<u>3,110,093</u>	<u>2,699,402</u>	<u>3,748,965</u>	<u>5,342,168</u>
(315)	2,706,278	3,756,047	(2,781,709)
<u>-</u>	<u>10,569,575</u>	<u>7,869,361</u>	<u>80,304,831</u>
<u>\$ (315)</u>	<u>\$ 13,275,853</u>	<u>\$ 11,625,408</u>	<u>\$ 77,523,122</u>

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

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
STATEMENT OF CASH FLOWS -
ENTERPRISE FUNDS - ENTERPRISE-TYPE ACTIVITIES
Year Ended June 30, 2012

	<u>Central Telephone Service (20310)</u>	<u>ISD-OIP-Human Resources (20360)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 39,963,368	\$ 6,308,173
Cash payments to suppliers	(26,142,837)	(1,963,351)
Cash payments to employees for services	<u>(9,666,189)</u>	<u>(877,134)</u>
Net cash provided by (used in) operating activities	<u>4,154,342</u>	<u>3,467,688</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers in (out) from other agencies	-	-
Transfers in (out) from other funds	<u>(8,146,964)</u>	<u>(4,241,608)</u>
Net cash provided by non-capital financing activities	<u>(8,146,964)</u>	<u>(4,241,608)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	<u>-</u>	<u>(65,678)</u>
Net cash provided by capital and related financing activities	<u>-</u>	<u>(65,678)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>-</u>	<u>-</u>
Net cash provided by investing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(3,992,622)	(839,598)
INVESTMENTS, STATE TREASURER, BEGINNING OF YEAR	<u>14,005,935</u>	<u>2,656,289</u>
INVESTMENTS, STATE TREASURER, END OF YEAR	<u>\$ 10,013,313</u>	<u>\$ 1,816,691</u>

Program Support (20320)	Equipment Replacement Fund (96880)	Equipment Replacement Fund (96870)	Total
\$ 811	\$ -	\$ -	\$ 46,272,352
(258,116)	-	-	(28,364,304)
<u>(2,801,180)</u>	<u>-</u>	<u>-</u>	<u>(13,344,503)</u>
<u>(3,058,485)</u>	<u>-</u>	<u>-</u>	<u>4,563,545</u>
-	-	-	-
<u>2,698,831</u>	<u>5,632,251</u>	<u>3,548,008</u>	<u>(509,482)</u>
<u>2,698,831</u>	<u>5,632,251</u>	<u>3,548,008</u>	<u>(509,482)</u>
-	(3,683,212)	-	(3,748,890)
-	(3,683,212)	-	(3,748,890)
-	5,907	5,947	11,854
-	5,907	5,947	11,854
(359,654)	1,954,946	3,553,955	317,027
<u>499,378</u>	<u>5,440,437</u>	<u>4,320,969</u>	<u>26,923,008</u>
<u>\$ 139,724</u>	<u>\$ 7,395,383</u>	<u>\$ 7,874,924</u>	<u>\$ 27,240,035</u>

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
STATEMENT OF CASH FLOWS -
ENTERPRISE FUNDS - ENTERPRISE-TYPE ACTIVITIES (CONTINUED)
Year Ended June 30, 2012

	<u>Central Telephone Service (20310)</u>	<u>ISD-OIP-Human Resources (02360)</u>
OPERATING LOSS	\$ (4,969,226)	\$ (54,031)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Depreciation	6,511,385	3,748,965
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	243,090	(137,669)
(Decrease) increase in accounts payable	2,138,248	(104,000)
(Decrease) increase in accrued payroll	51,980	11,371
(Decrease) increase in compensated absences	<u>178,864</u>	<u>3,053</u>
Total adjustments	<u>9,123,567</u>	<u>3,521,720</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 4,154,341</u>	<u>\$ 3,467,689</u>

Program Support (20320)	Equipment Replacement Fund (96880)	Equipment Replacement Fund (96870)	Total
\$ (3,110,408)	\$ -	\$ -	\$ (8,133,665)
-	-	-	10,260,350
(297)	-	-	105,124
13,872	-	-	2,048,120
20,371	-	-	83,722
<u>17,977</u>	<u>-</u>	<u>-</u>	<u>199,894</u>
<u>51,923</u>	<u>-</u>	<u>-</u>	<u>12,697,210</u>
<u>\$ (3,058,485)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,563,545</u>

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

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – DEFINITION OF REPORTING ENTITY

The Department of Information Technology (the Department or DoIT) was created by the Legislature of the State of New Mexico under House Bill 959 in the Laws of 2007 and enactment of the Department of Information Technology Act. The purpose of the Act was to create a single, unified executive branch department to administer all laws and exercise all functions formerly administered by the Department of the Chief Information Officer, the Information Technology Commission, pursuant to the Information Technology Management Act, and the communications division, Information Systems Division, Radio Communications Bureau and Telecommunications Bureau of the General Services Department to consolidate enterprise information technology services duplicated within executive agencies and provide additional information technology services and functionality to improve and streamline the executive branch's information technology systems.

The Department provides enterprise information technology services to State government's executive branch. This includes the communications infrastructure, the State Data Center, and oversight for information technology projects to help State agencies better serve the public.

Services include:

- Data center services
 - Mainframe
 - Open systems and UNIX systems
 - Hosting and administration
 - Data storage services
- Communication services
 - E-mail and calendar
 - Mobile phone and BlackBerry
 - Radio
 - Voice
 - Cell phone
- Network services
 - Wide area network
 - Local area network
 - Internet access
- Application and professional services
 - Web hosting
 - Application development and maintenance
 - Desktop support services
 - Enterprise project management
 - Database administration
 - Enterprise support desk

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – DEFINITION OF REPORTING ENTITY (CONTINUED)

- Security services
 - Firewall
 - Virtual private network

- Oversight and compliance
 - Agency IT planning guidance
 - Project certification and oversight
 - Project management guidance
 - Review and approval of IT contracts

The chief executive of the Department is the Department Secretary, who is appointed by the Governor of New Mexico and is a member of the Governor's cabinet. The Department's functions are administered by the Department of the Secretary and through the Enterprise Applications and Enterprise Network Service Programs. Overall support is provided by the Administrative Services Division. There are no component units of the Department.

The accompanying financial statements of the Department include all funds and activities over which the Department has oversight responsibility. Even though the Governor appoints the Department Secretary, the Secretary has decision-making authority, the power to designate management, the responsibility to significantly influence operations and is primarily accountable for fiscal matters.

The Department is part of the primary government of the State of New Mexico, and its financial data is included with the financial data in the State of New Mexico's Comprehensive Annual Financial Report. These financial statements present financial information that is attributable to the Department and does not purport to present the financial position of the State of New Mexico.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

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

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Reporting Entity

The financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Department applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The more significant of the Department's accounting policies are described below:

Governmental Accounting Standards Board Statement (GASBS) 14 and 39, *The Financial Reporting Entity*, effective for periods beginning after December 15, 1992, establishes standards for defining and reporting on the financial reporting entity. GASB 39 supersedes previous standards issued by the National Council on Governmental Accounting. The requirements of GASB 39 apply at all levels to all State and local governments.

GASB 39 defines the financial reporting entity as consisting 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. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government."

The Department is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, but would be included in a state-wide Comprehensive Annual Financial Report (CAFR).

In evaluating how to define the Department for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Department is able to exercise oversight responsibilities. Based upon the application of these criteria, the Department does not have any component units.

Basic Financial Statements - Government-wide Statements

The Department's basic financial statements include both information on a government-wide basis and information presented on a fund basis. Government-wide financial statements include two basic financial statements: a statement of net assets and a statement of activities. These statements do not include the fiduciary activities as they do not represent resources available to fund the Department's programs. The Department has no fiduciary fund activity.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental funds or business-type. In the government-wide statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The Department's net assets are reported in three parts: invested in capital assets; restricted net assets and unrestricted net assets. When applicable, the effect of interfund activity is removed from the statement of net assets in order to avoid a grossing-up effect on assets and liabilities within the statements.

The objective of the statement of activities is to report the relative financial burden of each of the reporting government's functions on its taxpayers. The format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees or intergovernmental aid.

The statement of activities presents governmental and business-type activities by function. The governmental functions of the Department have been defined as the center for advanced computing, radio communications, broadband technology and information technology management. The business-type functions include central telephone services, ISD-OIP Human Resource and program support.

The resources and activities accounted for and reported in business-type funds permit for any activity that provides goods or services to other funds, departments or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis when the reporting government is the predominant participant in the activity. Program revenues included in the statement of activities reduce the cost of the function to be financed from general revenues. Items not properly identified as program revenues are reported instead as general revenues. Program revenues include charges to state agencies, the federal government and local governments for information technology services.

The Department reports all direct expenses by program in the statement of activities. Direct expenses are those clearly identifiable with a function. The Department does not currently employ indirect cost allocation systems.

Basic Financial Statements - Fund Financial Statements

The governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. The presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the Department's actual experience conforms with the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of government-wide presentation.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The financial transactions of the Department are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The reporting model under GASB 34 sets forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combines) for the determination of major funds. Due to the fund structure of the Department, all funds are considered major funds and are included under two types of funds: governmental funds and proprietary funds.

The following fund types are used by the Department:

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

The Information Technology Management Office (SHARE 20370). This fund is the general operating fund of the Department and is used to account for all financial resources except those required to be accounted for in another fund. The general fund is funded primarily from appropriations from the State of New Mexico and a budget is legally adopted for this fund. This is a reverting fund.

Laws of 2007, Chapter 42, Section 62, Item 7, authorized the creation of the Center for Advanced Computing Fund (SHARE 20350). This fund is special revenue fund used to account for resources appropriated for purposes of planning, designing, constructing, and renovating a state center for advanced computing. This fund is a reverting fund.

Section 15-38-16 NMSA 1978 created the Radio Communications Fund (SHARE 20340). This is a special revenue fund that is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified radio communications projects. This is a reverting fund.

American Recovery and Reinvestment Act Fund (ARRA). On February 13, 2009, the U.S. Congress passed the American Recovery and Reinvestment Act of 2009 in response to the economic crisis. Due to the separate reporting requirement for ARRA expenditures, as specified by the U.S. Office of Management and Budget (OMB), the

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Department records all ARRA activity in this special revenue fund (SHARE 89000). The ARRA fund is a major fund and is non-reverting.

Proprietary Fund Types - Proprietary funds use the economic measurement focus and the full accrual basis of accounting and are used to report the Department's service activities that charge customers a fee. Customers include other State agencies, federal, and local governments. Like the government-wide financial statements, they report all assets (including capital assets), liabilities (short and long-term); revenues, expenses, gains and losses. They report the services included the business-type activities in the government-wide financial statements. The Department uses one kind of proprietary fund, enterprise funds, to account for services provided to external customers.

Laws of 2007, CH 290, HB 959, transferred the Central Telephone Services Division (SHARE 20310) to the Department in fiscal year 2008. This division is responsible for designing, establishing and maintaining voice and data telecommunication systems for New Mexico state government and other governmental entities. This is a non-reverting fund.

Laws of 2007, CH 290, HB 959, transferred the ISD-OIP Human Resources Fund (SHARE 20360) to the Department in fiscal year 2008. The fund accounts for the costs of operating the Human Resource System. The Information Systems Division provides professional technical services, and the operation is administered jointly by the Department of Finance and Administration and the State Personnel Office. The costs are recovered through assessments, based on a per-employee cost, to all agencies subject to their oversight. This is a non-reverting fund.

Laws of 2007, CH 290, HB 959, created the Program Support Fund (SHARE 20320) provides financial, purchasing, budget and personnel-related services for the enterprise funds listed above. This is a non-reverting fund.

Laws of 2008, CH 84, HB 517, created the Equipment Replacement Funds (SHARE 96880 and SHARE 96870) in order to plan for the expenditure of capital investments necessary to provide goods and services to the state and its agencies and to local public bodies and other enterprise customers. Replacement funds in 96880 are intended to replace equipment in the Central Telephone Service Fund (SHARE 20310). Replacement funds in 96870 are intended to replace equipment in the ISD-OIP Human Resources Fund (SHARE 20360). These funds are non-reverting funds.

Measurement Focus, Basis of Accounting and Financial Reporting Presentation

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

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

of when the related cash flows take place. Non-exchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and appropriations. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied and related costs are incurred. Appropriations are recorded at the time the money is made available to a specific fund.

All governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period ("available" meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, typically 60 days).

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

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB 33, 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 requirement are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result for providing information technology services to customers which include state agencies, federal and local governments. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets and Budgetary Accounting

The State Legislature makes annual appropriations to the Department which lapse at fiscal year-end. Legal compliance is monitored through the establishment of a budget and financial control system which permits a budget-to-actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation unit level. Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitations as specified in the General Appropriations Act, Laws of 2007, Chapter 28, Section 3, item N. The budget amounts shown in the financial statements are the final authorized amounts as legally revised during the year.

These procedures are followed in establishing the budgetary data reflected in the financial statements:

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- a. No later than September 1, the Department submits to the Legislative Finance Committee (LFC) and the Budget Division of the Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.
- b. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcomes of those hearings are incorporated into the State's General Appropriations Act.
- c. The Act is signed into Law by the Governor of the State of New Mexico within the legally prescribed time limit, at which time the approved budget becomes a legally binding document.
- d. No later than May 1, the Department submits to DFA an annual operating budget by appropriation unit and object code based upon the appropriation made by the Legislature. The DFA Budget Division reviews and approves the operating budget which becomes effective on July 1. All subsequent budgetary adjustments must be approved by the Director of the DFA Budget Division and by LFC.
- e. Budgetary control is exercised by the Department at the appropriation unit level. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.
- f. Per the General Appropriation Act, Laws of 2007, Chapter 28, Section 3, item N, "For the purpose of administering the General Appropriation Act of 2007 and approving operating budgets, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration." The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of next year's budget. Encumbrances related to single year appropriations lapse at year-end. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget.
- g. The original budget differs from the final budgets presented in the budget comparison statements by any amendments made during the fiscal year.
- h. Appropriations lapse at the end of the fiscal year except for those amounts related to goods and services received by June 30.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in State General Fund Investment Pool

The Department is required by statute to deposit any money received into the State Treasury. Balances maintained at the end of the day are pooled and invested by the State Treasurer. The State Treasurer issues separate financial statements that disclose the collateral pledged to secure these deposits, categories of risk involved and the market value of purchased investments. Consequently the Department reports its share of the investment pool maintained at the State Treasurer on the enterprise statement of net assets and the statement of cash flows. Investments are considered liquid investments with original maturities of less than 90 days for cash flow statement purposes.

Interfund Receivables/Payables

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

Capital Assets

Capital assets are stated at cost or estimated historical cost, and include data processing, buildings, furniture, office equipment and machinery and equipment constructed with Department resources and acquired with state appropriations. They also include assets transferred from the General Services Department of the State of New Mexico under the provisions of House Bill 959. Capital asset additions made through governmental funds are recorded as capital outlay expenditures in the respective funds and recorded in the government-wide financial statements. The Department does not own any infrastructure assets.

Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Capital assets are defined in Section 12-6-10 NMSA 1978. Section 12-6-10 NMSA 1978 was amended effective June 19, 2005, changing the capitalization threshold of movable chattels and equipment from items costing more than \$1,000 to items costing more than \$5,000. Old inventory items that do not meet the new capitalization threshold will remain on the inventory list and continue to be depreciated. Any items received after July 1, 2005 have been added to the inventory only if they meet the new capitalization policy. Donated capital assets are recorded at estimated fair market value at the date of donation. Computer software which is purchased with data processing computer equipment is included as part of the capitalized computer equipment in accordance with NMAC 2.20.1.9C(5).

Capital assets acquired by business-type funds are reported in those funds at cost.

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value. The Department estimates the useful lives on capital assets as follows:

Buildings and improvements	10 to 40 years
Data processing equipment and software	4 years
Machinery and equipment	5 years
Office furniture and fixtures	7 years
Auto and trucks	5 years

Accrued Compensated Absences

Accrued compensated absences consist of accumulated annual leave, sick leave between 600 and 720 hours, and compensatory leave for employees, including the related employers' matching FICA and Medicare payroll taxes. Vacation and sick leave earned and not taken is cumulative; however, upon termination of employment, sick pay for such leave hours accumulated up to 600 hours is forfeited, and vacation pay is limited to payment for 240 hours. Vacation leave up to the maximum of 240 hours is payable upon separation from service at the employee's current hourly rate. Sick leave is payable semi-annually to qualified employees for hours accumulated above 600 hours at a rate equal to 50% of their hourly rate, not to exceed 120 hours each semi-annual period. Upon retirement, payment for sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50% hourly rate. Qualified employees accumulate annual leave to a maximum of 240 hours as follows:

Years of Service	Hours Earned per Pay Period
Between 1 month to 3 years	3.08
Over 3 to 7 years	3.69
Over 7 and 11 years	4.61
Over 11 to 15 years	5.54
Over 15 years/beyond	6.15

When applicable, the compensated absence liability is presented in two parts in the government-wide financial statements, a current portion and a long-term portion. The current portion is in the amount expected to be expended during fiscal year 2013. It is an estimate management determined by applying a percentage to the June 30, 2012 liability. Department General Fund and Enterprise fund resources have been used to liquidate accrued compensated absences.

Due to State General Fund (Reversions)

The General Appropriation Act of 2007, Chapter 28, Section 3, item N, states that "For the purpose of administering the General Appropriation Act of 2007, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the Department of Finance and Administration." In accordance with the Department of Finance and Administration's *Basis of Accounting - Modified Accrual and the Budgetary Basis*, the Department has accrued as

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

payables amounts owed for goods and services received by June 30, 2012. Any State General Fund appropriations remaining in the general fund (SHARE 20370) and special revenue funds (SHARE 20340 and SHARE 20350) fund balance not reserved is reverted to the state general fund.

Net Assets/Fund Equity

In the government-wide financial statements, net assets consist of three components: invested in capital assets, net of related debt; restricted; and unrestricted. The Department has no debt related to capital assets; therefore, net assets invested in capital assets equal the capital assets, net of accumulated depreciation.

The Department financial statements shows net assets restricted of \$24,901,261 for capital replacement.

Net assets are reported as restricted when constraints placed on net asset use are externally imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Enabling legislation includes a legal enforceable requirement that resources be only for the specific purposes stipulated in the legislation.

Legal enforceability means the government can be impelled by an external party - such as citizens, public interest groups or the judiciary - to use resources for the purposes specified by the legislation.

The amount of net assets restricted by enabling legislation is \$24,901,261; which represents all restricted net assets reported on page 14.

These resources remaining in net assets were received or earned with the explicit understanding between the Department and the resource provider (grantor, contributor, other government or enabling legislation) that the funds would be used for a specific purpose.

Unrestricted net assets consist of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted or unrestricted (committed, assigned or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or, in some cases, by legislation. See Note 13 for additional information about fund balances.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

New Accounting Standard

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* ("GASB 60"), improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. GASB 60 will be effective for the County in fiscal year 2013 and does not appear that it will impact the County upon initial implementation.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* ("GASB 61"), improves reporting for a governmental financial reporting entity by better defining the reporting entity and by addressing reporting issues that have arisen since the issuance of GASB 14 and 34. GASB 61 will be implemented by the County in fiscal year 2013. The County intends to explore the impact of the Statement prior to development of the FY 2013 budget. At this time, the impact has not yet been determined.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* ("GASB 62"), does not change any current accounting or reporting standards, but makes them easier to find and understand. GASB 62 will be effective for the County fiscal year 2013.

Severance Tax Bonds

Severance tax bonds are allocated by the State Legislature to administer disbursements for related IT projects, and the Department is not obligated in any manner for the related indebtedness. The Department recognizes severance tax bonds as revenue when draw requests are issued for reimbursement from severance tax bonds of project expenditures made by the Department.

Actual Expenditures in Excess of Budgeted Amounts

The Department over-expended its budget in the following fund and appropriation unit:

Fund 20310 – Other Financing Uses	\$ 3,391,438
Fund 20360 – Other Financing Uses	\$ 2,442,504
Fund 20360 – Personnel Services	\$ 5,458

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Management evaluated subsequent events through December 17, 2012, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to December 17, 2012, that provided additional evidence about conditions that existed at June 30, 2012 have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2012.

NOTE 3 – STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED

In June 2012, an independent expert diagnostic report revealed that the State General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management REporting (SHARE) system in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx. The document title is, "Current State Diagnostic of Cash Control".

The General Fund Investment Pool is the State of New Mexico's main operating account. State revenues, such as income taxes, sales taxes, rents and royalties, and other recurring revenues, are credited to the State General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury.

As of June 30, 2012, the State General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the Department's balances at the business unit/fund level is not possible. Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices and banking structure. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items. DFA is responsible for the preparation of the book-to-bank reconciliation.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 – STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED (CONTINUED)

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled, “Cash Management Plan and Business Processes”. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration’s website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

The Department has established daily and monthly procedures that mitigate the risk of misstatement of the Department’s balances within the State General Fund Investment Pool. In addition, as required by Section 6-5-2.1 (J) NMSA 1978, DFA/FCD is to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

NOTE 4 - INTEREST IN THE STATE GENERAL FUND INVESTMENT POOL

State law (Section 8-6-3 NMSA 1978) requires the Department’s cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Department consist of an interest in the State General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

The Department has deposits, as defined in the Schedule of Individual Deposit Accounts, of \$22,692,029 with the Office of the State Treasurer in the State General Fund Investment Pool.

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

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

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 4 - INTEREST IN THE STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

The following is a summary of the Department's investment account of the State General Fund Investment Pool held by the New Mexico State Treasurer as reported by the New Mexico Department of Finance and Administration (DFA):

		SHARE	June 30, 2012	June 30, 2012	Financial
	Type of	Fund	Balance	Adjustments/	June 30, 2012
	Account	Number	per Bank	Reconciling	Reconciled
				Items	Balance
					per Books
Radio Communications - Special	Investment	20340	\$ (434,244)	\$ -	\$ (434,244)
Center for Advanced Computing	Investment	20350	-	-	-
Info/Tech Management Office	Investment	20370	7,430	-	7,430
ARRA	Investment	89000	(4,121,192)	-	<u>(4,121,192)</u>
Total governmental funds					(4,548,006)
Central Telephone Services	Investment	20310	10,013,313	-	10,013,313
Program Support	Investment	20320	140,038	(314)	139,724
Office of Information Processing	Investment	20330	-	-	-
ISD-OIP-Human Resources	Investment	20360	1,816,691	-	1,816,691
Equipment Replacement Fund	Investment	96870	7,874,924	-	7,874,924
Equipment Replacement Fund	Investment	96880	7,395,383	-	<u>7,395,383</u>
Total proprietary funds					<u>27,240,035</u>
Total share of State General					
Fund Investment Pool					<u>\$ 22,692,029</u>

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012 for the Department's enterprise funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Central Telephone Service (20310)</u>	<u>ISD-OIP- Human Resources (20360)</u>	<u>Total Enterprise Funds</u>
Receivables:			
Due from government agencies - trade	\$ 13,003,495	\$ 327,669	\$ 13,331,164
Gross receivables	13,003,495	327,669	13,331,164
Less allowance for uncollectible	<u>(4,290,158)</u>	<u>(107,585)</u>	<u>(4,397,743)</u>
Receivables, net	<u>\$ 8,713,337</u>	<u>\$ 220,084</u>	<u>\$ 8,933,421</u>

The allowance for uncollectible accounts consists principally of accounts greater than one year old for which budgetary authority and resources may not exist.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 – CAPITAL ASSETS

The capital assets activity for the year ended June 30, 2012 is as follows:

Governmental Activities					
	Balance June 30, 2011	Additions in FY12	Deletions in FY12	Internal Transfers In (Out)	Balance June 30, 2012
Capital assets:					
Data processing	\$ 14,123,707	\$ -	\$ -	\$ -	\$ 14,123,707
Buildings and improvements	-	4,283,100	-	(4,283,100)	-
Machinery and equipment	66,921	661,012	-	(661,012)	66,921
Construction in Progress	-	11,238,361	-	(889,856)	10,348,505
Total capital assets	14,190,628	16,182,473	-	(5,833,968)	24,539,133
Accumulated depreciation:					
Data processing	(8,001,717)	-	-	-	(8,001,717)
Machinery and equipment	(33,737)	(2,786,493)	-	-	(2,820,230)
Total accumulated depreciation	(8,035,454)	(2,786,493)	-	-	(10,821,947)
Net capital assets:					
Data processing	6,121,990	-	-	-	6,121,990
Buildings and improvements	-	4,283,100	-	(4,283,100)	-
Machinery and equipment	33,184	(2,125,481)	-	(661,012)	(2,753,309)
Construction in Progress	-	11,238,361	-	(889,856)	10,348,505
Net capital assets	\$ 6,155,174	\$ 13,395,980	\$ -	\$ (5,833,968)	\$ 13,717,186

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 – CAPITAL ASSETS (CONTINUED)

Business-type Activities					
	Balance	Additions	Deletions	Internal	Balance
	June 30, 2011	in FY12	in FY12	Transfers	June 30, 2012
				In (Out)	
Capital assets:					
Data processing	\$ 67,104,230	\$ 609,647	\$ (197,836)	\$ 460,612	\$ 67,976,653
Buildings & improvements	14,052,203	-	(3,609)	4,283,100	18,331,694
Autos and trucks	1,678,337	-	-	-	1,678,337
Machinery and equipment	62,364,417	3,268,014	(203,091)	200,400	65,629,740
Furniture & office equipment	323,743	-	-	-	323,743
Construction in Progress	-	-	-	889,856	889,856
Total capital assets	145,522,930	3,877,661	(404,536)	5,833,968	154,830,023
Accumulated depreciation:					
Data processing	(38,958,125)	(6,649,296)	197,836	-	(45,409,585)
Buildings & improvements	(4,244,684)	(710,777)	998	-	(4,954,463)
Autos and trucks	(1,629,849)	(24,410)	-	-	(1,654,259)
Machinery and equipment	(53,024,899)	(2,862,271)	201,532	-	(55,685,638)
Furniture & office equipment	(277,804)	(13,596)	-	-	(291,400)
Total accumulated depreciation	(98,135,361)	(10,260,350)	400,366	-	(107,995,345)
Net capital assets:					
Data processing	28,146,105	(6,039,649)	-	460,612	22,567,068
Buildings & improvements	9,807,519	(710,777)	(2,611)	4,283,100	13,377,231
Autos and trucks	48,488	(24,410)	-	-	24,078
Machinery and equipment	9,339,518	405,743	(1,559)	200,400	9,944,102
Furniture & office equipment	45,939	(13,596)	-	-	32,343
Construction in Progress	-	-	-	889,856	889,856
Net capital assets	\$ 47,387,569	\$ (6,382,689)	\$ (4,170)	\$ 5,833,968	\$ 46,834,678

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 – CAPITAL ASSETS (CONTINUED)

Depreciation was charged to the function/programs of the primary government as follows:

Governmental activities:	
Center for Advanced Computing	\$ 2,775,360
Broadband Technology	<u>11,133</u>
Total depreciation expense – governmental activities	2,786,493
Business-type activities:	
Central Telephone Service	6,511,385
ISD-OIP Human Resources	<u>3,748,965</u>
Total depreciation expense – business-type activities	<u>10,260,350</u>
Total depreciation expense	<u>\$ 13,046,843</u>

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 - INTERNAL BALANCES

The purpose of all internal balances is to record the services the Program Support Fund provides to the Department's enterprise funds and to record the amount due to equipment replacement funds. All interfund transactions are expected to be settled within one year.

Due from and due to other funds as of June 30, 2012 are as follows:

DUE FROM FUNDS		Governmental Funds			
		Radio Communications (20340)	Center for Advanced Computing (20350)	Information Technology Management Office (20370)	ARRA of 2009 (89000)
ENTERPRISE FUNDS					
20310	Central Telephone Services	\$ -	\$ -	\$ 14,291	\$ -
20320	Program Support	-	-	153	-
20330	Office of Information Processing	-	-	-	-
20360	ISD-OIP-Human Resources	-	-	-	-
96870	Equipment Replacement Fund-OIP	-	-	-	-
96880	Equipment Replacement Fund- ISD/Telecom	-	-	-	-
Enterprise fund totals		-	-	14,444	-
GOVERNMENTAL FUNDS					
20340	Radio Communications	-	-	-	-
20350	Center for Advanced Computing	-	-	-	-
20370	Information Technology Management Office	-	-	-	-
89000	ARRA	-	-	-	-
Governmental fund totals		-	-	-	-
DEPARTMENT TOTALS		\$ -	\$ -	\$ 14,444	\$ -

DUE TO FUNDS

Enterprise Funds						
Central Telephone Services (20310)	Program Support (20320)	ISD OIP Human Resources (20360)	SHARE ERF (96870)	Telecom ERF (96880)	Total	
\$ -	\$ 215,811	\$ -	\$ -	\$ 6,525,454	\$ 6,755,556	
58,578	-	3,687	-	-	62,418	
-	-	-	-	-	-	
-	13,583	-	3,748,965	-	3,762,548	
-	-	-	-	-	-	
58,578	229,394	3,687	3,748,965	6,525,454	10,580,522	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	10,564	-	-	-	10,564	
-	-	-	-	-	-	
-	10,564	-	-	-	10,564	
<u>\$ 58,578</u>	<u>\$ 239,958</u>	<u>\$ 3,687</u>	<u>\$ 3,748,965</u>	<u>\$ 6,525,454</u>	<u>\$ 10,591,086</u>	

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 8 – INTERNAL BALANCE SUMMARY

<u>Fund Name</u>	<u>Fund Number</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Net Amount</u>
Enterprise funds:				
Central Telephone Services	20310	\$ 58,578	\$ (6,755,556)	\$ (6,696,978)
Program Support	20320	239,958	(62,417)	177,541
Office of Information Processing	20330	-	-	-
ISD-OIP Human Resources	20360	3,687	(3,762,549)	(3,758,862)
Equipment Replacement Fund - OIP	96870	3,748,965	-	3,748,965
Equipment Replacement Fund - ISD/Telecom	96880	<u>6,525,454</u>	<u>-</u>	<u>6,525,454</u>
Total enterprise funds		10,576,642	(10,580,522)	(3,880)
Governmental funds:				
Radio Communications Specials	20340	-	-	-
General Fund - ITMO	20370	14,444	(10,564)	3,880
ARRA	89000	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental funds		<u>14,444</u>	<u>(10,564)</u>	<u>3,880</u>
Grand total		<u>\$ 10,591,086</u>	<u>\$ (10,591,086)</u>	<u>\$ -</u>

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 – DUE FROM/TO OTHER AGENCIES

A summary of amounts due to other agencies as of June 30, 2012:

DOIT Fund	Agency	Agency Number	Fund Number	Amount	Purpose
Governmental Funds:					
20370	State General Fund	341	85200	\$ 9	Reversion payable FY11
Total governmental funds				9	
Enterprise Funds:					
20310	Dept. of Public Safety	790	12800	137,800	Leasing of office space for communication tower
Total enterprise funds				137,800	
Total due to other state agencies				\$ 137,809	

A summary of amounts due from other state agencies as of June 30, 2012:

DOIT Fund	Agency	Agency Number	Fund Number	Amount	Purpose
Governmental Funds:					
20340	DFA-Board of Finance	341	73000	\$ 434,244	Draws for Severance Tax Bonds
Total governmental funds				434,244	
Enterprise Funds:					
96870	State Treas. Office	39400	80100	1,519	Interest Earnings Receivable
96880	State Treas. Office	39400	80100	1,478	Interest Earnings Receivable
Total enterprise funds				2,997	
Total due from other state agencies				\$ 437,241	

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 10 – CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	Business-type Activities				
	Beginning Balance	Increase	(Decrease)	Ending Balance	Current Portion
Compensated absences payable	<u>\$ 692,269</u>	<u>\$ 584,515</u>	<u>\$ (384,621)</u>	<u>\$ 892,163</u>	<u>\$ 154,956</u>
	Governmental Activities				
	Beginning Balance	Increase	(Decrease)	Ending Balance	Current Portion
Compensated absences payable	<u>\$ 47,385</u>	<u>\$ 49,645</u>	<u>\$ (67,901)</u>	<u>\$ 29,129</u>	<u>\$ 3,862</u>

Compensated absences payable – The compensated absence liability of the governmental funds is expected to be liquidated by the General Fund. The compensated absence liabilities of the enterprise funds are expected to be liquidated by the respective enterprise funds.

NOTE 11 - PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

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

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 - PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
(CONTINUED)

Funding Policy

Plan members are required to contribute 8.92% of their gross salary. The Department is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Department's contributions to PERA for the fiscal years ending June 30, 2012, 2011 and 2010 were \$1,314,395, \$1,524,021 and \$1,640,756, respectively, which equal the amount of the required contribution for each fiscal year.

NOTE 12 - 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.

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 12 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

Funding Policy

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal year ending June 30, 2013, the contribution rates for employees and employers will rise as follows:

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

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.000%	1.000%

Also, employers joining the program after January 1, 1998 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Department's contributions to the RHCA for the years ended June 30, 2012, 2011 and 2010 were \$179,924, \$166,263 and \$138,268, respectively, which equal the required contributions for each year.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Department has commitments greater than one year in duration for vehicles, office space and equipment under operating lease agreements. These leases are considered for accounting purposes to be operating leases. Lease expenditures/expenses for the year ended June 30, 2012 totaled approximately \$1,206,057.

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

Years ending June 30:

2013	\$ 649,744
2014	383,061
2015	116,660
2016	116,705
2017 and thereafter	<u>116,705</u>
Total	<u>\$ 1,382,875</u>

Risk Management

The Department obtains coverage through the Risk Management Division of the State of New Mexico General Services Department. This coverage includes liability and civil rights, property, vehicle, employer bond, workers' compensation, group insurance and state unemployment. The coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Department are covered by blanket fidelity bond up to \$5,000,000 with a \$1,000 deductible per occurrence by the State of New Mexico for the period July 1, 2011 through June 30, 2012. There have been no settlements in excess of insurance coverage as of June 30, 2012.

NOTE 14 – DEFICIT FUND BALANCE

Fund 20320 has a deficit fund balance of \$315. Management plans to eliminate the deficit in the coming fiscal year by reducing expenses in that fund.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE 15 - INTERFUND TRANSFERS

The following amounts were transferred between funds within the Department's fund structure for purposes of covering the cost of program support (SHARE 20320) and to record amounts due to the equipment replacement funds (SHARE 96870 and SHARE 96880).

State Agency	Purpose	Governmental Activities	Governmental Fund	
		Governmental Activities	Info Tech Management Office (20370)	Program Support (20320)
DoIT	Program support assessment	\$ -	\$ (103,200)	\$ 3,110,093
DoIT	Transfer of capital assets	(5,833,968)	-	-
DoIT	Equipment Replacement	-	-	-
		<u>\$ (5,833,968)</u>	<u>\$ (103,200)</u>	<u>\$ 3,110,093</u>

Transfers (to) from other agencies:

State Agency	Agency No.	Fund	Purpose	Enterprise Fund
				ISD-OIP-Human Resources (20360)
DFA	34100	85300	Transfer portion of HRMS fees collected	\$ (595,000)
				<u>\$ (595,000)</u>

Enterprise Funds

Central Telephone Services (20310)	Office of Information Processing (20330)	ISD-OIP-Human Resources (20360)	Equipment Replacement Fund (96870)	Equipment Replacement Fund (96880)	Total
\$ (2,828,853)	\$ -	\$ (178,040)	\$ -	\$ -	\$ -
9,645,951	-	-	-	(3,811,983)	-
<u>(6,511,385)</u>	<u>-</u>	<u>(3,748,965)</u>	<u>3,748,965</u>	<u>6,511,385</u>	<u>-</u>
<u>\$ 305,713</u>	<u>\$ -</u>	<u>\$ (3,927,005)</u>	<u>\$ 3,748,965</u>	<u>\$ 2,699,402</u>	<u>\$ -</u>

Total

\$ (595,000)

\$ (595,000)

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

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS -
BUDGET AND ACTUAL - MAJOR ENTERPRISE FUNDS -
CENTRAL TELEPHONE SERVICES (FUND 20310)
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>(Budgetary Basis)</u>	<u>Final Budget</u> <u>Positive (Negative)</u>
REVENUES				
Inter-agency/Internal service	\$ 42,732,500	\$ 44,057,500	\$ 39,716,108	\$ (4,341,392)
Other state funds	-	-	-	-
Total revenues	42,732,500	44,057,500	39,716,108	(4,341,392)
Budgeted fund balance	-	1,750,000	1,750,000	-
Total revenues and budgeted fund balance	42,732,500	45,807,500	41,466,108	(4,341,392)
EXPENDITURES				
Personal services	9,765,900	9,965,900	9,897,033	68,867
Contractual services	6,242,700	6,242,700	5,839,866	402,834
Other	20,775,100	23,650,100	22,441,220	1,208,880
Total expenditures	36,783,700	39,858,700	38,178,119	1,680,581
OTHER FINANCING SOURCES (USES)				
Other financing sources	-	-	-	-
Other financing uses	(5,948,800)	(5,948,800)	(9,340,238)	(3,391,438)
Total other financing uses	(5,948,800)	(5,948,800)	(9,340,238)	(3,391,438)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	\$ -	\$ -	(6,052,249)	\$ (6,052,249)
PRIOR YEAR FUND BALANCE NOT REVENUE FOR GAAP PURPOSES				
			(1,750,000)	
DEPRECIATION EXPENSE				
			(6,511,385)	
INTERNAL TRANSFER OF CAPITAL ASSETS				
			9,645,950	
CHANGE IN NET ASSETS PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (GAAP BASIS)				
			\$ (4,667,684)	

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS -
BUDGET AND ACTUAL - MAJOR ENTERPRISE FUNDS -
ISD-OIP-HUMAN RESOURCES (FUND 20360)
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Inter-agency/Internal service	\$ 5,531,200	\$ 5,531,200	\$ 6,445,787	\$ 914,587
Other state funds	-	-	54	54
Total revenues	5,531,200	5,531,200	6,445,841	914,641
EXPENDITURES				
Personal services	886,100	886,100	891,558	(5,458)
Contractual services	2,065,900	1,935,900	1,300,082	635,818
Other	499,700	629,700	559,267	70,433
Total expenditures	3,451,700	3,451,700	2,750,907	700,793
OTHER FINANCING SOURCES (USES)				
Other financing sources	-	-	-	-
Other financing uses	(2,079,500)	(2,079,500)	(4,522,005)	(2,442,505)
Total other financing sources	(2,079,500)	(2,079,500)	(4,522,005)	(2,442,505)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	\$ -	\$ -	(827,071)	\$ (827,071)
DEPRECIATION EXPENSE				
			(3,748,965)	
CAPITAL ASSETS TRANSFERS				
			-	
CHANGE IN NET ASSETS PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (GAAP BASIS)				
			\$ (4,576,036)	

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS -
BUDGET AND ACTUAL - MAJOR ENTERPRISE FUNDS -
PROGRAM SUPPORT (FUND 20320)
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Other state funds	\$ -	\$ -	\$ 1,108	\$ 1,108
Total revenues	-	-	1,108	1,108
EXPENDITURES				
Personal services	2,975,600	2,900,600	2,839,528	61,072
Contractual services	40,800	40,800	36,701	4,099
Other	194,100	269,100	235,287	33,813
Total expenditures	3,210,500	3,210,500	3,111,516	98,984
OTHER FINANCING SOURCES (USES)				
Other financing sources	3,210,500	3,210,500	3,110,093	(100,407)
Other financing uses	-	-	-	-
Total other financing sources	3,210,500	3,210,500	3,110,093	(100,407)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	\$ -	\$ -	(315)	\$ (315)
CHANGE IN NET ASSETS PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (GAAP BASIS)				
			\$ (315)	

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS -
BUDGET AND ACTUAL - MAJOR ENTERPRISE FUNDS -
ENTERPRISE SERVICE EQUIPMENT REPLACEMENT FUND (FUND 96880)
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Other state funds	\$ -	\$ -	\$ 6,876	\$ 6,876
Total revenues	-	-	6,876	-
Budgeted fund balance	-	1,000,000	1,000,000	-
Total revenues and budgeted fund balance	-	1,000,000	1,006,876	-
EXPENDITURES				
Contractual services	325,000	-	-	-
Other	2,650,000	3,975,000	3,811,983	163,017
Total expenditures	2,975,000	3,975,000	3,811,983	163,017
OTHER FINANCING SOURCES (USES)				
Other financing sources	2,975,000	2,975,000	-	(2,975,000)
Total other financing sources	2,975,000	2,975,000	-	(2,975,000)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	\$ -	\$ -	(2,805,107)	\$ (2,805,107)
ACCOUNTING ENTRY TO RECORD AMOUNT OWED TO EQUIPMENT REPLACEMENT FUND FROM ENTERPRISE FUND				
			6,511,385	
PRIOR YEAR FUND BALANCE NOT REVENUE FOR GAAP PURPOSES				
			(1,000,000)	
CHANGE IN NET ASSETS PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (GAAP BASIS)				
			\$ 2,706,278	

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS -
BUDGET AND ACTUAL - MAJOR ENTERPRISE FUNDS -
SHARE EQUIPMENT REPLACEMENT FUND (FUND 96870)
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other state funds	\$ -	\$ -	\$ 7,082	\$ 7,082
Total revenues	-	-	7,082	7,082
EXPENDITURES				
Other	1,300,000	1,300,000	-	1,300,000
Total expenditures	1,300,000	1,300,000	-	1,300,000
OTHER FINANCING SOURCES (USES)				
Other financing sources	1,300,000	1,300,000	-	(1,300,000)
Other financing uses	-	-	-	-
Total other financing sources	1,300,000	1,300,000	-	(1,300,000)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	7,082	\$ 7,082
ACCOUNTING ENTRY TO RECORD AMOUNT OWED TO EQUIPMENT REPLACEMENT FUND FROM ENTERPRISE FUND			<u>3,748,965</u>	
CHANGE IN NET ASSETS PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (GAAP BASIS)			<u>\$ 3,756,047</u>	

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
 SCHEDULE OF SPECIAL APPROPRIATIONS
 Year Ended June 30, 2012

Description	Authority	Appropriation Period	SHARE Fund	Total Appropriations
To continue telecommunication infrastructure	Laws of 2006, Ch. 109, Sec. 7, Item 6	Extended thru FY2012	20340	\$ 4,800,000
For incremental license fees for SHARE	Laws of 2009, Ch. 124, Sec. 7, Item 4	2010-2011	20340	935,000
To implement SHARE treasury module	Laws of 2009, Ch. 124, Sec. 7, Item 5	2010-2011	20340	<u>240,000</u>
				<u>\$ 5,975,000</u>
To plan, design, construct, renovate, improve, purchase and equip a state center for advanced computing	Laws of 2007, Ch. 42, Sec. 61, Item 7	2008-2011	20350	<u>\$ 14,000,000</u>
				<u>\$ 14,000,000</u>

<u>Prior Year Expenditures</u>	<u>Current Year Expenditures</u>	<u>Prior Year Reversion Amount</u>	<u>Current Year Reversion Amount</u>	<u>Reserved Fund Balance</u>	<u>Outstanding Encumbrances</u>	<u>Unencumbered Balance</u>
\$ (537,733)	\$ (4,262,267)	\$ -	\$ -	\$ -	\$ -	\$ -
(869,005)	-	(65,995)	-	-	-	-
<u>(228,105)</u>	<u>-</u>	<u>(11,895)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ (1,634,843)</u>	<u>\$ (4,262,267)</u>	<u>\$ (77,890)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ (13,739,908)	\$ -	\$ (260,092)	\$ -	\$ -	\$ -	\$ -
<u>\$ (13,739,908)</u>	<u>\$ -</u>	<u>\$ (260,092)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
SCHEDULE OF SEVERANCE TAX BOND PROCEEDS
Year Ended June 30, 2012

Description	Authority	Appropriation Period	SHARE Fund
To plan, design, construct and convert analog to digital MW towers	Laws of 2009, Ch. 125, Sec. 27, Item 6	2010-2013	20340
For telephone system upgrades, including replacing private branch exchange	Laws of 2009, Ch. 125, Sec. 27, Item 5	2010-2013	20340
For equipment upgrades for core telecom network	Laws of 2009, Ch. 125, Sec. 27, Item 4	2010-2013	20340
To design and equip a disaster recovery site for SHARE	Laws of 2009, Ch. 125, Sec. 27, Item 3	2010-2013	20340
To upgrade enterprise email system	Laws of 2009, Ch. 125, Sec. 27, Item 2	2010-2013	20340
To install IT hardware, software and fiber network equipment in the Simms Building	Laws of 2009, Ch. 125, Sec. 27, Item 1	2010-2013	20340

<u>Total Bond Proceeds</u>	<u>Prior Years Expenditures</u>	<u>Current Year Expenditures</u>	<u>Prior Year Reversion Amount</u>	<u>Current Year Reversion Amount</u>	<u>June 30, 2012 Available</u>
\$ 1,000,000	\$ 298,851	\$ 654,926	\$ -	\$ -	\$ 46,223
900,000	849,962	39,049	-	-	10,989
800,000	382,770	417,113	-	-	117
1,700,000	1,536,600	-	-	-	163,400
2,100,000	1,639,356	460,613	-	-	31
<u>900,000</u>	<u>883,631</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,369</u>
<u>\$ 7,400,000</u>	<u>\$ 5,591,170</u>	<u>\$ 1,571,701</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 237,129</u>

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
MEMORANDA OF UNDERSTANDING
Year Ended June 30, 2012**

Participants	Party Responsible for Operation	Purpose
New Mexico Spaceport Authority (NMSA) and DOIT	Department of Information and Technology (DoIT)	NMSA communications and networking
DFA, University of New Mexico (UNM), and New Mexico Computing Applications Center	New Mexico Computing Applications Center	Development of the New Mexico Computing Applications Center
DFA and DOIT	DoIT	To locate SHARE professionals at DOIT in Simms Building
DFA	DoIT and DFA	To clarify the responsibilities of DoIT and DFA to provide 1) a stable, predictable PeopleSoft application; 2) management related to maintenance and enhancement of applications; and 3) IT support for business teams for daily operations
NMCAC, DoIT and Clovis Community College (Site)	Clovis Community College (Site)	To establish a computer visualization center (Gateway site) with the NM Supercomputer
NMCAC, DoIT and Eastern New Mexico University (Site)	Eastern New Mexico University (Site)	To establish a computer visualization center (Gateway site) with the NM Supercomputer
NMCAC, DoIT and New Mexico Junior College (Site)	New Mexico Junior College (Site)	To establish a computer visualization center (Gateway site) with the NM Supercomputer
NMCAC, DoIT and Navajo Technical College (Site)	Navajo Technical College (Site)	To establish a computer visualization center (Gateway site) with the NM Supercomputer

<u>Dates of Agreement</u>	<u>Total Estimated Cost of Project</u>	<u>Amount Contributed by Agency during Fiscal Year</u>	<u>Audit Responsibility</u>	<u>Fiscal Agent</u>	<u>Agency where Revenues/ Expenditures are Reported</u>
11/8/10 - Completion Date	TBD	\$ -	DoIT	DoIT	DoIT
9/19/08 - Term effective unless terminated	\$ 5,855,000	\$ -	DoIT	DoIT and UNM	Passthrough revenue/expend. by DoIT
1/18/12 - Project completion date	\$ -	\$ -	DoIT	DoIT	DoIT
5/26/09 - Term indefinitely unless terminated	\$ 582,900	\$ 582,900	DoIT and DFA	DoIT	DoIT and DFA
12/14/10 - Term effective unless terminated	\$ -	\$ -	DoIT	DoIT	DoIT
11/30/09 - Term effective unless terminated	\$ -	\$ -	DoIT	DoIT	DoIT
12/8/09 - Term effective unless terminated	\$ -	\$ -	DoIT	DoIT	DoIT
12/14/10 - Term effective unless terminated	\$ -	\$ -	DoIT	DoIT	DoIT

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
MEMORANDA OF UNDERSTANDING (CONTINUED)
Year Ended June 30, 2012**

Participants	Party Responsible for Operation	Purpose
NMCAC, DoIT and UNM - Gallup (Site)	UNM Gallup (Site)	To establish a computer visualization center (Gateway site) with the NM Supercomputer
NMCAC, DoIT and UNM - Los Alamos (Site)	UNM - Los Alamos (Site)	To establish a computer visualization center (Gateway site) with the NM Supercomputer
NMCAC, DoIT and UNM - Taos (Site)	UNM - Taos (Site)	To establish a computer visualization center (Gateway site) with the NM Supercomputer
NMCAC, DoIT and UNM - Valencia (Site)	UNM - Valencia (Site)	To establish a computer visualization center (Gateway site) with the NM Supercomputer
NMCAC, DoIT and Regents of UNM (Site)	Regents of UNM (Site)	To establish a computer visualization center (Gateway site) with the NM Supercomputer
NMCAC, Western New Mexico University (Site)	Western New Mexico University (Site)	To establish a computer visualization center (Gateway site) with the NM Supercomputer
NMCAC, New Mexico Institute of Mining & Technology (Site)	New Mexico Institute of Mining & Technology (Site)	To establish a computer visualization center (Gateway site) with the NM Supercomputer
NMCAC, San Juan College (Site)	San Juan College (Site)	To establish a computer visualization center (Gateway site) with the NM Supercomputer
NMCAC, Santa Fe Community College (Site)	Santa Fe Community College (Site)	To establish a computer visualization center (Gateway site) with the NM Supercomputer
DoIT, GSD (space assignment understanding)	DoIT	Operations and occupancy of the facility known as Radio Com Building situated at the Dept. of Public Safety Complex in Santa Fe

<u>Dates of Agreement</u>	<u>Total Estimated Cost of Project</u>	<u>Amount Contributed by Agency during Fiscal Year</u>	<u>Audit Responsibility</u>	<u>Fiscal Agent</u>	<u>Agency where Revenues/ Expenditures are Reported</u>
12/14/10 - Term effective unless terminated	\$ -	\$ -	DoIT	DoIT	DoIT
12/14/10 - Term effective unless terminated	\$ -	\$ -	DoIT	DoIT	DoIT
12/14/10 - Term effective unless terminated	\$ -	\$ -	DoIT	DoIT	DoIT
12/14/10 - Term effective unless terminated	\$ -	\$ -	DoIT	DoIT	DoIT
12/11/09 - Term effective unless terminated	\$ -	\$ -	DoIT	DoIT	DoIT
12/30/09 - Term effective unless terminated	\$ -	\$ -	DoIT	DoIT	DoIT
12/21/09 - Term effective unless terminated	\$ -	\$ -	DoIT	DoIT	DoIT
12/21/09 - Term effective unless terminated	\$ -	\$ -	DoIT	DoIT	DoIT
12/21/09 - Term effective unless terminated	\$ -	\$ -	DoIT	DoIT	DoIT
9/2/10 - Term effective unless terminated	\$ -	\$ -	DoIT	DoIT	DoIT

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012**

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Participating Expenditures
U.S. Department of Commerce			
ARRA - State Broadband Data and Development Grant Program (35-50-M09036)	11.558		\$ 960,055
ARRA - Broadband Technology Opportunities Program (NT10BIX557097)	11.557		<u>12,433,214</u>
Total U.S. Department of Commerce			<u>13,393,269</u>
U.S. Department of Energy			
State Energy Program	81.041		<u>1,000</u>
Total U.S. Department of Energy			<u>1,000</u>
TOTAL			<u>\$ 13,394,269</u>

Note: The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. There were no federal awards expended in the form of non-cash assistance during the year. There were no loans or loan guarantees during the year. None of the funds expended were passed through to subrecipients.

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

Mr. Darryl Ackley
State of New Mexico Department of Information Technology
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparisons for the general fund and the major special revenue funds and related enterprise funds' budgetary comparisons presented as supplemental information of the State of New Mexico Department of Information Technology (the Department) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 17, 2012. The report on the business-type activities and Fund 20310 was qualified because we could not satisfy ourselves as to the existence, completeness and accuracy of the accounts receivable in Fund 20310. Except as described in the preceding sentence we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and not designed to identify all deficiencies in internal control over financial reporting and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 08-01 and 08-02 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 08-08 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as findings 11-08 and 08-03.

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

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

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 17, 2012

**Independent Auditors' Report on Compliance with
Requirements that Could Have a Direct and Material Effect on
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

Mr. Darryl Ackley
State of New Mexico Department of Information Technology
Mr. Hector H. Balderas
New Mexico State Auditor

Compliance

We have audited the compliance of the State of New Mexico Department of Information Technology (the Department) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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

In our opinion, the Department complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as finding 11-04.

Internal Control over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 entity'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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as finding 11-04. *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.

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

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



Albuquerque, New Mexico
December 17, 2012

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012**

Section I—Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
11.558	U.S. Department of Commerce – ARRA – State Broadband Data and Development Grant Program
11.557	U.S. Department of Commerce – ARRA – Broadband Technology Opportunities Program

Dollar threshold used to distinguish between type A and type B programs \$401,798

Auditee qualified as low-risk auditee? yes no

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

Section II—Financial Statement Findings

Finding 08-01 Capital Asset Management and Tracking (Material Weakness) – Repeated and Modified

Condition: During the testwork over capital assets, the following was noted:

- The Department does not have a centralized listing of capital assets that will allow the Department to properly maintain the capital assets of the Department. The Department maintains the assets transferred from General Services Department in the subsidiary system (GEAC), while assets acquired by the Department since 2008 are being tracked in excel spreadsheets.
- The Department's capital asset listing includes an undetermined amount of fully depreciated assets that are either no longer in service or no longer in existence.

Criteria: MAPs (FIN 6 Asset Management), authorized by NMSA 1978 2.20.1 NMAC, states that state agencies shall record and report state owned capital assets in accordance with state law, state rule and Generally Accepted Accounting Principles.

Cause: Failure or lack of internal controls over the management and tracking of capital assets.

Effect: Without adequate controls over the management and tracking of capital assets, the Department is at risk of possible undetected loss of assets and misstatements to the financial statements of the Department.

Auditor's Recommendation: We recommend that management of the Department establish effective controls necessary to ensure that capital assets are properly managed and tracked to ensure the assets are adequately safeguarded and that the assets are fairly presented in the financial statements, and to ensure compliance with all applicable laws and regulations. It is recommended that the Department update the capital asset listing to exclude fully depreciated assets that are no longer in service or previously disposed of. It is recommended the Department implement the use of a more sophisticated capital asset tracking module that would allow for all capital assets to be managed and tracked in one system. This system should include the capabilities to attach improvements of assets to the original asset id, allow the Department to identify if the asset is movable or non-movable asset, and the specific location of the asset. These capabilities will allow the Department to efficiently and adequately perform annual physical inventories of all movable assets of the Department as required. Additionally, we recommend that the Department designate a qualified individual to be responsible for the oversight of meeting these requirements.

Management's Response: Management concurs with the finding and will continue monitoring asset inventory. In addition, the Department is looking at implementing the Fixed Asset Module within SHARE, which will enable the Department to manage and track in one system all fixed assets, and will look at the capability of identifying moveable/non moveable assets. The CFO will be responsible for the oversight and compliance of asset management.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

Section II—Financial Statement Findings (continued)

Finding 08-02 Accounts Receivable Reconciliation (Material Weakness) - Repeated

Condition: The Department is unable to reconcile the accounts receivable recorded in SHARE and the subsidiary system. The difference as of June 30, 2012 is approximately \$850,000.

Criteria: MAPs (FIN 13.1 External Systems), authorized by Chapter 6-5-2.1 NMSA, requires the complete, accurate and timely recording of accounting transactions originating from a subsidiary system into SHARE, the central reporting system.

Cause: In prior years, the accounts receivable billings were not recorded to the general ledger monthly, while the billings were updated in the subsidiary monthly. This prevented the process of monthly reconciliations.

Effect: Incorrect billings may occur. Incorrect decisions are possible, with incomplete or erroneous account balances. Collections of accounts receivable may be impacted or delayed. External auditors could not satisfy themselves regarding accounts receivable, resulting in a qualified opinion.

Auditor's Recommendation: While it has been noted the Department has hired an accounts receivable manager to assist in a complete reconciliation, it is recommended to ensure this reconciliation is completed in a timely manner during FY13 to prevent future qualifications of the accounts receivable. It is recommended that the Department consistently reconcile the subsidiary system and SHARE every month to ensure that all transactions recorded in either system are properly reflected in both systems to prevent time intensive reconciliations over extended periods.

Management's Response: Management concurs with the finding. The Department will continue to take steps to get the prior year Accounts Receivable reconciliations completed. The Department has hired additional staff, including a manager, to address the reconciliations and assist in the posting of billing detail into the general ledger on a timely basis. The Department has made significant progress and has completed the FY12 portion of the reconciliation. The Department will continue with the prior year reconciliation until complete and will make the appropriate accounting adjustments as required. The difference noted is less than one half of one percent of the total amount billed for the previous five fiscal years.

Finding 08-08 Unbilled Receivables for Telephone Usage (Significant Deficiency)

Condition: DoIT has unbilled accounts receivable that are not identified by customer. Research is required to determine the correct entity to bill for telephone services utilized. The amounts of unbilled receivables for fiscal years ending June 30, 2012, 2011, 2010, 2009, and 2008 were \$621,191, \$566,363, \$439,970, \$346,026, and \$180,908, respectively.

Criteria: MAPs FIN 11.1 and 6-5-2 NMSA 1978 require the active management of accounts receivable and the maintenance of detailed accounts receivable ledgers.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

Section II—Financial Statement Findings (continued)

Finding 08-08 Unbilled Receivables for Telephone Usage (Significant Deficiency)
(continued)

Effect: Accounts receivable billing is delayed, creating negative effects on cash flow. Unauthorized telephone customers may be using state resources inappropriately.

Cause: The Department has assumed the responsibilities of centralized telephone management for the State of New Mexico. The volume of transactions that has to be billed and managed is large and some transactions have not yet been correctly identified. Resources to review specific transactions and correct billing customers have not been consistently available.

Recommendation: We recommend that the Department identify and commit resources to complete the identification of all billing transactions and to then periodically update their billing database.

Management's Response: Management concurs with the finding. The Department is in the process of analyzing its communications network and has identified limitations that will require replacement of various components. The execution of an implementation strategy will provide a solution to address the unbilled usage. Resources have been committed to manage this project. In each of the previous fiscal years the Department has reduced the amount of unidentified telephone usage. The Department will look at the viability of making adjustments to the accounts receivable balances for amounts that should not have been recorded and should not be considered valid accounts receivable.

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012**

Section III – Federal Award Findings and Questioned Costs

Finding 11-04 Federal Grant Matching (Significant Deficiency)

Condition: During A-133 single audit testwork over the matching requirements, it was determined that for CFDA 11.558 and 11.557 the Department doesn't currently have adequate controls in place to effectively track actual match expenses and valuation of in-kind match amounts.

Criteria: A-102 Common Rule requires that non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Cause: Failure or lack of internal controls over matching requirements established by the Federal government.

Effect: Possible non-compliance with federal grant regulations.

Auditor's Recommendation: We recommend that management establish effective controls surrounding the tracking of and reporting of match expenses and the valuation of in-kind matches to ensure compliance with the grant requirements. Additionally, we recommend that the Department designate an individual to be responsible for meeting these requirements.

Management's Response: Management will implement policies and procedures to ensure federal grant matching requirements are tracked and reported in accordance with federal grant regulations.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

Section IV – Other Findings

Finding 11-08 Business Continuity/Disaster Recovery Plan (Other)

Condition: During our assessment of the information technology control environment, it was determined that the Department does not have a finalized Business Continuity/Disaster Recovery Plan that has been implemented and communicated to appropriate personnel.

Criteria: The Department should have a finalized Disaster Recovery Plan that has been and can continue to be tested.

Cause: Lack of effective controls concerning the development and testing of the Department's existing Business Continuity/Disaster Recovery Plan.

Effect: Possible loss of financial information, as well as fiduciary break and risk of corruption and/or loss of confidential data.

Recommendation: We recommend that management place high priority in completing and formalizing the current Disaster Recovery Plan. This includes off-site storage of the Business Continuity/Disaster Recovery Plan and testing the Plan to ensure its completeness and reliability.

Management's Response: The Department will continue to review its current plan, and formalize, test and implement the plan to ensure its completeness and reliability. In FY12 the Department completed three disaster recovery tests, 1 partial IPLable standalone MVS2 system Feb. 2012, 1 full recovery 99% with no client testing May 2012, and 1 full recovery 100% with client end to end testing June 2012. The Department will continue to make progress on Business Continuity and Disaster Recovery.

Finding 08-03 Budget Overspending (Other)

Condition: The Department over-expended its budget in the following funds and appropriation units:

Fund 20310 – Other Financing Uses	\$ 3,391,438
Fund 20360 – Other Financing Uses	\$ 2,442,504
Fund 20360 – Personnel Services	\$ 5,458

Criteria: Budgetary controls, which included the timely adoption of budget adjustments, should prevent any expenditure in excess of the approved budget. In accordance with the State's Model Accounting Practices FIN 4 (4.7), State agencies must verify that sufficient budget is available prior to making the commitment.

Effect: By not complying with their budgets, other budgetary periods or fund balance reserves could be adversely or unexpectedly impacted. Budgetary controls inherent in the bar approval process are not available if bars are not submitted.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

Section IV – Other Findings (continued)

Finding 08-03 Budget Overspending (Other) (continued)

Cause: The actual amount to be transferred to the equipment replacement funds based on depreciation expense was not monitored to ensure that available budget was available to transfer to the equipment replacement funds.

Recommendation: The Department should estimate the amount that will be transferred to the equipment replacement funds near year end and prepare any necessary budget adjustments.

Management's Response: Management will request sufficient budget authority to cover all Other Financing Sources and Uses and will work with the Department of Finance and Administration to address this budgetary need.

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012**

Section I – Financial Statement Findings

Finding 11-05 Billings and Rates Charged (Significant Deficiency) – Resolved

During the testwork performed over the billings and user fee revenue, we noted the following discrepancies on individual invoices:

- Tethering service billed on invoice at rate of \$12 instead of \$13
- Desktop support service billed at \$55 instead of \$47 per hour
- General CPU billed at \$11.18 instead of \$11.08
- The number of FTEs billed for does not agree to the House Bill authorized FTE; a difference of 2 was noted.

These discrepancies were noted on a total of 9 invoices out of 363 examined, with a total amount of \$2,905 in under-billed amounts and \$499 in over-billed amounts. In addition, an adjustment invoice generated in the billing system in the amount of \$925 was for FY11, but was not posted in SHARE.

Finding 11-06 Cash Receipts (Significant Deficiency) – Resolved

During the walkthrough of the cash receipts process, the following deficiencies in internal control over the cash receipts process were noted:

- The safe is closed during the day; however, it remains unlocked during the day and at times is susceptible to the risk of fraud while the clerk steps away.
- The accounts receivable clerk is responsible for opening the mail containing checks to be deposited, logging the receipt of these checks, posting of the receipts to SHARE and the subsidiary system, preparation of the deposit ticket, and the reconciliation of the log at the end of the day. Furthermore, there is no supervisory review over these daily processes. This is deemed to be a lack of adequate segregation of duties over the cash receipt process.

Finding 11-07 Operating Leases (Significant Deficiency) – Resolved

The Department doesn't have effective internal controls in place to identify the operating leases of the Department for disclosure of the Department's lease obligations in the financial statements.

Finding 08-01 Capital Asset Management and Tracking (Material Weakness) – Repeated and Modified

During the testwork over capital assets, the following was noted:

- The Department does not have a centralized listing of capital assets that will allow the Department to properly maintain the capital assets of the Department. The Department maintains the assets transferred from General Services Department in the subsidiary system (GEAC), while assets acquired by the Department since 2008 are being tracked in excel spreadsheets.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012

Section I – Financial Statement Findings (continued)

- The Department's capital asset listing includes an undetermined amount of fully depreciated assets that are either no longer in service or no longer in existence.
- The initial capital asset schedule the Department provided to the external auditors was deemed incomplete and the Department identified approximately \$1,495,000 in additional assets that were to be capitalized.
- The Department identified capital assets that were impaired and no longer in service and were expected to be disposed of in FY12 with a net book value of approximately \$108,000. However, the Department did not adjust the carrying amount of these assets as of June 30, 2011.

Finding 08-02 Accounts Receivable Reconciliation (Material Weakness) – Repeated and Modified

The Department is unable to reconcile the accounts receivable recorded in SHARE and the subsidiary system. The difference as of June 30, 2011 is approximately \$203,000.

Finding 08-08 Unbilled Receivables for Telephone Usage (Significant Deficiency) – Repeated and Modified

DoIT has unbilled accounts receivable that are not identified by customer. Research is required to determine the correct entity to bill for telephone services utilized. The amounts of unbilled receivables for fiscal years ending June 30, 2011, 2010, 2009, and 2008 were \$566,363, \$439,970, \$346,026, and \$180,908, respectively.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012

Section II – Federal Award Findings and Questioned Costs

Finding 11-01 Federal Grant Reporting (Significant Deficiency) – Resolved

During A-133 single audit reporting testwork, the following exceptions were noted regarding federal reporting:

CFDA 11.558 – 4 quarterly performance reports were not filed timely, 1 quarterly FFR 425 was not filed timely. 9 of 12 total reports tested were not adequately supported and 12 of 12 total reports tested were not reviewed by someone other than the preparer.

CFDA 11.557 – 1 quarterly performance report was not filed timely. 12 of 12 total reports tested were not adequately supported and 12 of 12 total reports tested were not reviewed by someone other than the preparer.

Finding 11-02 Federally Awarded Contracts/Suspended and Debarred Vendors (Significant Deficiency) – Resolved

During A-133 single audit suspended/debarred vendor testwork, the following exceptions were noted:

CFDA 11.558 – 2 of 2 contracts tested were awarded prior to checking the EPLS to ensure the vendor is not a suspended/debarred vendor.

CFDA 11.557 – 1 of 2 contracts tested excluded the required ARRA clause.

Finding 11-03 Unallowable Costs/Incomplete Per Diem Meal Receipts (Significant Deficiency) – Resolved

During our single audit allowed costs testwork, the following exceptions were noted:

CFDA 11.558 – 1 of 7 vouchers tested for per diem included 1 alcohol beverage for \$7 on one receipt. In addition, the per diem reimbursement included 1 receipt that was not detailed to provide detail of actual items purchased to determine allowability.

Criteria: Per OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, alcoholic beverages are un-allowable costs. Additionally, OMB A-133 states that adequate control activities should be in place to provide supporting documentation that can be compared to a list of allowable and unallowable

Finding 11-04 Federal Grant Matching (Significant Deficiency) – Repeated and Modified

During A-133 single audit testwork over the matching requirements, it was determined that for CFDA 11.558 and 11.557 the Department doesn't currently have adequate controls in place to effectively track actual match expenses and valuation of in-kind match amounts.

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012

Section III – Other Findings

Finding 11-08 Business Continuity/Disaster Recovery Plan (Other) – Repeated

During our assessment of the information technology control environment, it was determined that the Department does not have a finalized Business Continuity/Disaster Recovery Plan that has been implemented and communicated to appropriate personnel.

Finding 08-03 Budget Overspending (Other) – Repeated and Modified

The Department over-expended its budget in the following funds and appropriation units:

Fund 20310 – Other Financing Uses - \$735,383
Fund 20360 – Other Financing Uses - \$2,235,395

**STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY
EXIT CONFERENCE
June 30, 2012**

An exit conference was held with the Department on December 17, 2012. The conference was held at the offices of the Department of Information Technology in Santa Fe, New Mexico. In attendance were:

STATE OF NEW MEXICO DEPARTMENT OF INFORMATION TECHNOLOGY

Jacqueline J. Miller, Deputy Cabinet Secretary
Charles Martinez, Chief Financial Officer
Doug Taylor, GL Bureau Accountant

CLIFTONLARSONALLEN LLP

Janet Pacheco-Morton, CPA, CGFM, Audit Partner
Joel Blackman, CPA, Audit Manager

The financial statements presented in this report have been prepared by the independent auditor. However, they are the responsibility of management, as addressed in the Independent Auditor's Report. Management reviewed and approved the financial statements.