



NEW MEXICO
DEPARTMENT OF
INFORMATION TECHNOLOGY



New Mexico Department Information Technology

Financial Statements
For the Year Ended June 30, 2017

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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
New Mexico Department of Information Technology
Official Roster
June 30, 2017

Darryl Ackley	Cabinet Secretary and Chief Information Officer
Estevan J. Lujan	Deputy Secretary
Donna Sandoval	Chief Financial Officer and ASD Director
Maria Sanchez	General Legal Counsel

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Mr. Darryl Ackley
State of New Mexico
Department of Information Technology
Timothy Keller
New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the budgetary comparisons for the general fund and major special revenue funds of the New Mexico Department of Information Technology (the Department) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the budgetary comparisons of the major capital project and enterprise funds presented as supplementary information, as defined by the Governmental Accounting Standards Board, as of and for the year ended June 30, 2017 as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparisons of the capital project and enterprise funds of the Department for the year ended June 30, 2017 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities that are attributable to the transactions of the Department. They do not purport to and do not present fairly the financial position of the State of New Mexico as of June 30, 2017, and the changes in its financial position, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 11 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements and the budgetary comparisons. The introductory section, and Supporting Schedule I required by 2.2.2 NMAC are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2017, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Cordova CPAs LLC". The signature is written in a cursive, flowing style.

Cordova CPAs LLC
Albuquerque, New Mexico
October 20, 2017

STATE OF NEW MEXICO
DEPARTMENT OF INFORMATION TECHNOLOGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2017

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 position and a statement of activities. These statements include the primary government but do not include fiduciary activities.

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

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 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:

STATE OF NEW MEXICO
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Government-Wide Financial Statements (Continued)

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, 2017, 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 position or balance sheet; statement of revenues, expenses, and changes in fund net position 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.

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.

STATE OF NEW MEXICO
DEPARTMENT OF INFORMATION TECHNOLOGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2017

Required Supplemental and Other Supplemental Information Supplemental information, such as management's discussion and analysis, statements, schedules, or other information, is 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 the Office of the State Auditor.

Financial Analysis of the Department as a Whole

Business-type Activities Net Position Table A-1 summarizes the Department's net position for the fiscal year ended June 30, 2017. Net position for business-type activities was \$86,669,288.

Table A-1

	Business-type Activities		
	2017	2016	Change
Assets			
Current assets	\$ 52,276,509	\$ 51,311,030	\$ 965,479
Capital assets, net of depreciation	43,061,444	34,444,806	\$ 8,616,638
Total assets	\$ 95,337,953	\$ 85,755,836	\$ 9,582,117
Liabilities and net position			
Liabilities:			
Current liabilities	\$ 8,668,666	\$ 8,655,435	\$ 13,231
Noncurrent liabilities	-	-	\$ -
Total liabilities	8,668,666	8,655,435	\$ 13,231
Net position			
Net investment in capital assets	43,061,444	34,444,806	\$ 8,616,638
Restricted	47,489,290	48,806,556	\$ (1,317,266)
Unrestricted	(3,881,446)	(6,150,961)	\$ 2,269,515
Total net position	86,669,288	77,100,401	\$ 9,568,887
Total liabilities and net position	\$ 95,337,954	\$ 85,755,836	\$ 9,582,118

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Year Ended June 30, 2017

Business-type Activities Changes in Net Position The Department's change in business-type net position for fiscal year 2017 was an increase of \$9,568,887.

Table A-2

	Business-Type Activities		
	2017	2016	Change
Revenues			
Program revenues	\$ 61,871,868	\$ 60,399,044	\$ 1,472,824
General revenues	68,332	1,684,486	\$ (1,616,154)
Total revenues	<u>61,940,200</u>	<u>62,083,530</u>	<u>\$ (143,330)</u>
Expenses:			
Enterprise Services	47,589,306	51,227,079	\$ (3,637,773)
SHARE Operating	6,896,076	7,586,257	\$ (690,181)
Program Support	<u>3,373,068</u>	<u>2,800,601</u>	<u>\$ 572,467</u>
Total expenses	<u>57,858,450</u>	<u>61,613,937</u>	<u>\$ (3,755,487)</u>
Excess (deficiency) before transfers	4,081,750	469,593	\$ 3,612,157
Special item	-	(145,203)	\$ 145,203
Loss on disposal of capital assets	(21,584)	-	\$ (21,584)
Internal transfers of capital assets	5,950,721	4,108,576	\$ 1,842,145
Transfers in	<u>(442,000)</u>	<u>104,142</u>	<u>\$ (546,142)</u>
Changes in net position	9,568,887	4,537,108	\$ 5,031,779
Beginning net position	<u>77,100,401</u>	<u>72,563,293</u>	<u>\$ 4,537,108</u>
Ending net position	<u>\$ 86,669,288</u>	<u>\$ 77,100,401</u>	<u>\$ 9,568,887</u>

STATE OF NEW MEXICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2017

Governmental Activities Net Position Table A-3 summarizes the Department's net position for the fiscal year ended June 30, 2017. Net position for governmental activities was \$29,604,564.

Table A-3

	Governmental Activities		
	2017	2016	Change
Assets			
Current assets	\$ 1,582,091	\$ 3,051,991	\$ (1,469,900)
Capital assets, net of depreciation	<u>29,540,094</u>	<u>34,932,579</u>	<u>\$ (5,392,485)</u>
Total assets	<u><u>\$ 31,122,185</u></u>	<u><u>\$ 37,984,570</u></u>	<u><u>\$ (6,862,385)</u></u>
Liabilities and net position			
Liabilities:			
Current liabilities	\$ 1,517,621	\$ 1,375,186	\$ 142,435
Noncurrent liabilities	<u>-</u>	<u>-</u>	<u>\$ -</u>
Total liabilities	<u>1,517,621</u>	<u>1,375,186</u>	<u>\$ 142,435</u>
Net position			
Net investment in capital assets	29,540,094	34,932,579	\$ (5,392,485)
Restricted	110,022	1,736,800	\$ (1,626,778)
Unrestricted	<u>(45,552)</u>	<u>(59,995)</u>	<u>\$ 14,443</u>
Total net position	29,604,564	36,609,384	\$ (7,004,820)
Total liabilities and net position	<u><u>\$ 31,122,185</u></u>	<u><u>\$ 37,984,570</u></u>	<u><u>\$ (6,862,385)</u></u>

STATE OF NEW MEXICO
DEPARTMENT OF INFORMATION TECHNOLOGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2017

Governmental Activities Changes in Net Position The Department's change in net position for governmental activities for fiscal year 2017 was an decrease of \$7,004,820 (Statement of Activities). Approximately 13% of the Department's governmental revenue comes from State General Fund Appropriations excluding special appropriations.

Table A-4

	Governmental Activities		
	2017	2016	Change
Revenues			
Program revenues	\$ 351,493	\$ 4,816,866	\$ (4,465,373)
General revenues	6,061,798	6,755,928	\$ (694,130)
Total revenues	<u>6,413,291</u>	<u>11,572,794</u>	<u>\$ (5,159,503)</u>
Expenses:			
Broadband Technology	6,906,567	3,321,879	\$ 3,584,688
Information Technology Management	<u>1,002,823</u>	<u>784,613</u>	<u>\$ 218,210</u>
Total expenses	<u>7,909,390</u>	<u>4,106,492</u>	<u>\$ 3,802,898</u>
Excess (deficiency) before transfers	(1,496,099)	7,466,302	\$ (8,962,401)
Internal transfers of capital assets	(5,950,721)	(4,108,576)	\$ (1,842,145)
Internal Transfers out	<u>442,000</u>	<u>(104,142)</u>	<u>\$ 546,142</u>
Changes in net position	(7,004,820)	3,253,584	\$ (10,258,404)
Beginning net position	<u>36,609,384</u>	<u>33,355,800</u>	<u>\$ 3,253,584</u>
Ending net position	<u>\$ 29,604,564</u>	<u>\$ 36,609,384</u>	<u>\$ (7,004,820)</u>

STATE OF NEW MEXICO
DEPARTMENT OF INFORMATION TECHNOLOGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2017

Financial Analysis of Overall Financial Position and Results of Operations

Governmental activities decreased the Department's net position by \$7,004,820 and enterprise activities increased the Department's net position by \$9,568,887. Key elements of these changes are as follows:

Governmental Activities Governmental activities decreased the Department's net position by \$7,004,820. Revenues decreased \$5,159,503 due to the decrease in operating grant revenues. Program revenues decreased due to decreased grant expenditure activity and reimbursement in the current year compared to the prior year. Other financing uses increased due to increased transfers of capital assets from a governmental fund to enterprise fund. Prior year transfers of capital assets were \$4,108,576 and current year transfers were \$5,950,721.

Enterprise Activities Expenses decreased by \$3,755,487 comparing fiscal year 2017 fiscal year 2016. In addition, and an increase of internal transfers of assets of \$1,842,145 also was a factor in the increase in net position.

Capital Asset Administration

Capital Assets The Department's net investment in capital assets totaled \$72,601,538 at June 30, 2017. Amounts reflected in this category are not available to fund future spending. The Department uses these assets to provide services.

The Department's net investment in capital assets as of June 30, 2017 amounts to \$29,540,094 for its governmental activities and \$43,061,444 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 2017 was \$7,843,257 compared with \$11,994,434 in fiscal year 2016. 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 partially built into the rate structure and charged to the customers over the life of the asset.

General Fund Budget and Transaction Highlights

The Department's approved budget for the Information Technology Management Office (Fund 20370) was \$885,400 for fiscal year 2017. The Department expended 68% in personnel and the remaining 32% in the other category of expense. The Department expended 93% of the One-Stop Business Portal special appropriation, which ended June 30, 2017, on contractual items and the other 7% in the other category. The Department expended 26% of the budget was used for personnel, 68% for contractual and the remaining 6% were used in the other category of expenses for the Statewide Broadband appropriation that ended June 30, 2017.

STATE OF NEW MEXICO
DEPARTMENT OF INFORMATION TECHNOLOGY
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Agency Description

The Department of Information Technology's purpose is to provide leadership and oversight ensuring alignment with statewide strategic planning, consolidate enterprise information technology services duplicated within agencies and to provide information technology services and functionality to improve and streamline the executive branch information technology systems. The Department is organized into three program areas: Enterprise Services, Program Support and Project Oversight and Compliance, also referred to as the OCIO. Enterprise Services is comprised of SHARE, Compute and Communications, Public Safety Communications, Customer Engagement, Office of Broadband and Geospatial Initiatives (OBGI), State and Local Implementation Grant Program (SLIGP) and the project One Stop Business Portal (OSBP). Program Support includes the Office of the Secretary, Administrative Services Division and Office of Human Resources. Project Oversight and Compliance, or the Office of the Chief Information Officer (OCIO), includes Enterprise Project Management Office (EPMO), IT Strategic Planning, IT Investment Oversight and the Chief Information Security Officer.

Accomplishments in State Fiscal Year 2017

SHARE

The SHARE 9.2 Upgrade will improve features, functions, process flows and navigation. In the April of 2017, the SHARE team completed upgrade of PeopleSoft HCM; the upgrade of PeopleSoft FSCM is planned for completion in October 2017.

The SHARE team worked with the New Mexico Department of Transportation (NM DOT) on this pilot project to implement the PeopleSoft Enterprise Learning Management (ELM) product suite, which integrates with PeopleSoft HCM and FSCM suites to create a comprehensive, enterprise-level employee learning management system. ELM maintains a training history that follows an employee throughout their career. The ELM pilots created are repeatable process that can be used to deploy the ELM solution to other state agencies.

Compute and Communications

In State Fiscal Year 2017, DoIT continued delivering reliable, core enterprise services, while undertaking a number of new initiatives and improvement efforts.

DoIT continued improving existing service-delivery infrastructure and began planning for next generation of services and technologies.

- Implemented improved security infrastructure
- Implemented upgrades in hosting environment
- Implemented secondary data center at Oso Grande facility in Albuquerque
- Completed several pilots related to cloud hosting, software as a service and call center as a service (working in partnership with the Department of Workforce Solutions)
- Began developing DoIT Enterprise Architecture Plan, v.1.0, to document current architecture, explore options for future services and technology, and define roadmap for implementing and refreshing the plan

Public Safety and Communications

The Public Safety Communications Team upgraded and consolidated Department of Public Safety (DPS) dispatch centers into three regional areas. The Department also established two additional radio sites for DPS.

DoIT is in the process of completing a multi-year project Statewide Interoperable Radio Communication Internet Transport System (SIRCITS) that will upgrade the State's digital microwave system and deploying an early adopter Long Term Evolution (LTE) public safety communication system to support the national Public Safety Broadband Network (PSBN) program in New Mexico. The completion date for this project is August 23, 2017.

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Customer Engagement

The Customer Engagement team completed 10 planned services reviews with major agencies and updated standardized templates for agency service reviews. In fiscal year 2017 the team improved customer relationships by increasing email and phone communications regarding current services and informing them of new services.

Administrative Services Division

The Department's 2016 audit resulted in an unmodified opinion. The Department made significant progress in fiscal year 2017 in implementing budgetary controls, such as CFO Directives for Procurement and Payments. The additional controls were key to resolving the 2016 finding "Unrecorded Accounts Payable" and remaining current with amounts due to vendors.

Office of the Chief Information Officer (OCIO) and Project Oversight

All executive agencies now have assigned Compliance and Project Management – Office of the CIO (OCIO) account liaisons who provide guidance and oversight of IT projects. The CPM team reviewed 230 approved procurements totaling \$880,770,749. OCIO initiated a Project Management Center of Excellence (PM COE) to take the lead on building the project management community across the state enterprise, to develop updated guidance and training, and to plan and management DoIT projects.

Office of Broadband and Geospatial Initiatives (OBGI)

DoIT created the Office of Broadband and Geospatial Initiatives (OBGI) in 2017. The OBGI supports the DoIT/OBGI Geospatial Advisory Committee (GAC) and the National Geospatial Advisory Committee. GAC subcommittee created consortium of nearly 30 federal, state, regional, and local participants that secured over \$13M in funds to acquire elevation data within NM, equating to nearly 25% of the state.

State and Local Implementation Grant Program (SLIGP)

Through this grant, awarded by the National Telecommunications and Information Administration (NTIA), DoIT led outreach, education and planning related to the State's decision to opt in or out of the proposed nationwide public safety broadband network – FirstNet.

One Stop Business Portal (OSBP)

DoIT undertook this project as an unfunded mandate beginning in 2014. The OSBP is a public-facing portal that allows businesses – particularly small businesses – to more readily navigate government requirements related to establishing and operating a business in New Mexico. The OSBP relies upon participation by 9 agencies involved at one or more points in the business life cycle.

State Fiscal Year 2018 through 2020 IT Goals

- Improve the security, compliance and resilience of state systems, networks and data
- Modernize the State's enterprise resource planning system - SHARE
- Develop and mature Office of Chief Information Officer
- Improve DoIT financial transparency and drive administrative excellence
- Make DoIT a center of technical excellence, collaboration, and support
- Improve interoperability and communication structure for public safety
- Serve as focal point for broadband and geospatial initiatives statewide

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.

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**BASIC
FINANCIAL STATEMENTS**

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STATE OF NEW MEXICO
New Mexico Department of Information Technology
Statement of Net Position
June 30, 2017

Exhibit A-1

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Investment in State Treasurer's General Fund Investment Pool (SGFIP)	\$ 1,284,900	\$ 38,525,510	\$ 39,810,410
Accounts receivable, net of allowance for uncollectible accounts	-	13,750,999	13,750,999
Due from the federal government	57,328	-	57,328
Due from other state agencies	239,863	-	239,863
Total current assets	1,582,091	52,276,509	53,858,600
Noncurrent assets			
Capital assets, net of accumulated depreciation	29,540,094	43,061,444	72,601,538
Total noncurrent assets	29,540,094	43,061,444	72,601,538
Total assets	\$ 31,122,185	\$ 95,337,953	\$ 126,460,138
Liabilities			
Current liabilities			
Investment in state treasurer's general fund investment pool (SGFIP) overdraft	\$ 26,481	\$ -	\$ 26,481
Accounts payable	1,411,679	6,898,623	8,310,302
Accrued payroll	33,909	554,635	588,544
Due to other state agencies	-	383,180	383,180
Compensated absences	45,552	832,228	877,780
Total current liabilities	1,517,621	8,668,666	10,186,287
Total liabilities	1,517,621	8,668,666	10,186,287
Net Position			
Net investment in capital assets	29,540,094	43,061,444	72,601,538
Restricted	110,022	47,489,290	47,599,312
Unrestricted	(45,552)	(3,881,446)	(3,926,998)
Total net position	29,604,564	86,669,288	116,273,852
Total liabilities and net position	\$ 31,122,185	\$ 95,337,953	\$ 126,460,138

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

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Statement of Activities
For the Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Primary Government			
Governmental Activities:			
Broadband technology	\$ 6,906,567	\$ -	\$ 351,493
Information technology management	1,002,823	-	-
<i>Total governmental activities</i>	<u>7,909,390</u>	<u>-</u>	<u>351,493</u>
Business-type Activities:			
Enterprise services	47,589,306	52,785,644	-
SHARE operating	6,896,076	9,065,856	-
Program support	3,373,068	20,368	-
<i>Total business-type activities</i>	<u>57,858,450</u>	<u>61,871,868</u>	<u>-</u>
<i>Total primary government</i>	<u>\$ 65,767,840</u>	<u>\$ 61,871,868</u>	<u>\$ 351,493</u>

General Revenues and Transfers:

State general fund appropriation
Special appropriations
Severance tax bond proceeds
FY17 Reversions
Investment income
Loss on disposal of capital assets
Internal transfers of capital assets
Internal transfers

Total general revenues and transfers

Change in net position

Net position, beginning

Net position, ending

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

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (6,555,074)	\$ -	\$ (6,555,074)
(1,002,823)	-	(1,002,823)
(7,557,897)	-	(7,557,897)
-	5,196,338	5,196,338
-	2,169,780	2,169,780
-	(3,352,700)	(3,352,700)
-	4,013,418	4,013,418
(7,557,897)	4,013,418	(3,544,479)
885,400	-	885,400
4,100,000	-	4,100,000
1,131,463	-	1,131,463
(55,065)	(15)	(55,080)
-	68,347	68,347
-	(21,584)	(21,584)
(5,950,721)	5,950,721	-
442,000	(442,000)	-
553,077	5,555,469	6,108,546
(7,004,820)	9,568,887	2,564,067
36,609,384	77,100,401	113,709,785
<u>\$ 29,604,564</u>	<u>\$ 86,669,288</u>	<u>\$ 116,273,852</u>

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

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund Information Technology Management Office (20370)	Radio Communications (20340)
	<u> </u>	<u> </u>
ASSETS		
Investment in state treasurer's general fund investment pool (SGFIP)	\$ 147,992	\$ 1,121,257
Due from the federal government	-	-
Due from other state agencies	-	-
Due from other funds	<u>-</u>	<u>-</u>
<i>Total assets</i>	<u><u>\$ 147,992</u></u>	<u><u>\$ 1,121,257</u></u>
LIABILITIES AND FUND BALANCES		
<i>Liabilities</i>		
Investment in state treasurer's general fund investment pool (SGFIP) overdraft	\$ -	\$ -
Accounts payable	124,320	1,011,235
Accrued payroll	<u>23,672</u>	<u>-</u>
<i>Total liabilities</i>	<u>147,992</u>	<u>1,011,235</u>
<i>Fund balances</i>		
Spendable:		
Restricted	<u>-</u>	<u>110,022</u>
<i>Total fund balances</i>	<u>-</u>	<u>110,022</u>
<i>Total liabilities and fund balances</i>	<u><u>\$ 147,992</u></u>	<u><u>\$ 1,121,257</u></u>

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

ARRA Fund (89000)	State and Local Implementation Grants (11890)	Severance Tax Bonds Capital Outlay (89200)	Total Governmental Funds
\$ -	\$ -	\$ 15,651	\$ 1,284,900
-	57,328	-	57,328
-	-	239,863	239,863
-	-	-	-
<u>\$ -</u>	<u>\$ 57,328</u>	<u>\$ 255,514</u>	<u>\$ 1,582,091</u>
\$ -	\$ 26,481	\$ -	\$ 26,481
-	20,610	255,514	1,411,679
-	10,237	-	33,909
-	57,328	255,514	1,472,069
-	-	-	110,022
-	-	-	110,022
<u>\$ -</u>	<u>\$ 57,328</u>	<u>\$ 255,514</u>	<u>\$ 1,582,091</u>

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

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STATE OF NEW MEXICO
New Mexico Department of Information Technology
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2017

Exhibit B-1
Page 2 of 2

Fund Balance - Governmental Funds (Exhibit B-1)	\$ 110,022
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	29,540,094
Compensated absences are not payable on June 30, 2017 and therefore are not reported in the fund financial statements	<u>(45,552)</u>
Total net position (Exhibit A-1)	<u><u>\$ 29,604,564</u></u>

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

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2017

	General Fund Information Technology Management Office (20370)	Radio Communications (20340)
REVENUES:		
Federal operating grants	\$ -	\$ -
<i>Total revenues</i>	-	-
EXPENDITURES:		
General Government		
Current		
Personnel services	757,187	-
Contractual services	277,216	507,548
Other costs	37,932	599,972
Capital outlay	-	4,819,258
<i>Total expenditures</i>	1,072,335	5,926,778
<i>Excess (deficiency) of revenues over expenditures</i>	(1,072,335)	(5,926,778)
OTHER FINANCING SOURCES (USES):		
State general fund appropriation	885,400	-
Special appropriation	-	4,100,000
Severance tax bond proceeds	-	-
Internal transfers (out)	(158,000)	600,000
FY17 Reversion	(55,065)	-
<i>Total other financing sources and (uses)</i>	672,335	4,700,000
<i>Net change in fund balance</i>	(400,000)	(1,226,778)
<i>Fund balance - beginning of year</i>	400,000	1,336,800
<i>Fund balance - end of year</i>	\$ -	\$ 110,022

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

ARRA Fund (89000)	State and Local Implementation Grants (11890)	Severance Tax Bonds Capital Outlay (89200)	Total Governmental Funds
\$ 36,584	\$ 314,909	\$ -	\$ 351,493
<u>36,584</u>	<u>314,909</u>	<u>-</u>	<u>351,493</u>
6,309	190,913	-	954,409
29,423	71,493	-	885,680
852	52,503	-	691,259
<u>-</u>	<u>-</u>	<u>1,131,463</u>	<u>5,950,721</u>
<u>36,584</u>	<u>314,909</u>	<u>1,131,463</u>	<u>8,482,069</u>
<u>-</u>	<u>-</u>	<u>(1,131,463)</u>	<u>(8,130,576)</u>
-	-	-	885,400
-	-	-	4,100,000
-	-	1,131,463	1,131,463
-	-	-	442,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>(55,065)</u>
<u>-</u>	<u>-</u>	<u>1,131,463</u>	<u>6,503,798</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,626,778)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,736,800</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,022</u>

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

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STATE OF NEW MEXICO
 New Mexico Department of Information Technology
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2017

Net Change in Fund Balance - Governmental Funds	\$ (1,626,778)
The change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital asset additions reported as capital outlay expenditures	5,950,721
Depreciation expense	(5,356,357)
Transfer of capital assets from governmental activities to business-type activities	(5,950,721)
Capital asset adjustment	(36,128)
Decrease in compensated absences	14,443
Change in Net Position (Exhibit A-2)	\$ (7,004,820)

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

STATE OF NEW MEXICO

Exhibit C-1

New Mexico Department of Information Technology
 Statement of Revenues, Expenditures and
 Changes in Fund Balance-Budget (Budget Basis) and Actual
 General Fund Information Technology Management Office (20370)
 For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual (Budget) Basis</u>	<u>Variances Favorable (Unfavorable) Final to Actual</u>
	<u>Original</u>	<u>Final</u>		
<i>Revenues:</i>				
Miscellaneous revenue	\$ -	\$ -	\$ -	\$ -
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Personnel services	810,100	760,100	757,187	2,913
Contractual services	273,000	323,000	277,216	45,784
Other costs	44,300	44,300	37,932	6,368
<i>Total expenditures</i>	<u>1,127,400</u>	<u>1,127,400</u>	<u>1,072,335</u>	<u>55,065</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(1,127,400)</u>	<u>(1,127,400)</u>	<u>(1,072,335)</u>	<u>55,065</u>
<i>Other financing sources (uses)</i>				
Internal transfers	(158,000)	(158,000)	(158,000)	-
State general fund appropriation	1,285,400	1,285,400	885,400	(400,000)
<i>Total other financing sources (uses)</i>	<u>1,127,400</u>	<u>1,127,400</u>	<u>727,400</u>	<u>(400,000)</u>
<i>Net change in fund balances</i>	<u>\$ -</u>	<u>\$ -</u>	<u>(344,935)</u>	<u>\$ (344,935)</u>
Reversion expenditure omitted from budget basis			<u>(55,065)</u>	
Net change in fund balance GAAP basis			<u>\$ (400,000)</u>	

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

STATE OF NEW MEXICO

Exhibit C-2

New Mexico Department of Information Technology
 Statement of Revenues, Expenditures and
 Changes in Fund Balance-Budget (Budget Basis) and Actual
 Radio Communications Special Revenue Fund (20340)
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (Budget) Basis	Variations Favorable (Unfavorable) Final to Actual
	Original	Final		
<i>Revenues:</i>				
Miscellaneous revenue	\$ -	\$ -	\$ -	\$ -
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Personnel services	-	-	-	-
Contractual services	336,800	4,436,800	4,344,349	92,451
Other costs	1,000,000	1,600,000	1,582,429	17,571
<i>Total expenditures</i>	<u>1,336,800</u>	<u>6,036,800</u>	<u>5,926,778</u>	<u>110,022</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(1,336,800)</u>	<u>(6,036,800)</u>	<u>(5,926,778)</u>	<u>110,022</u>
<i>Other financing sources (uses)</i>				
Internal transfers	-	600,000	600,000	-
Special appropriations	-	4,100,000	4,100,000	-
Prior year fund balance	1,336,800	1,336,800	-	(1,336,800)
<i>Total other financing sources (uses)</i>	<u>1,336,800</u>	<u>6,036,800</u>	<u>4,700,000</u>	<u>(1,336,800)</u>
<i>Net change in fund balances</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,226,778)</u>	<u>\$ (1,226,778)</u>

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

STATE OF NEW MEXICO

Exhibit C-3

New Mexico Department of Information Technology
 Statement of Revenues, Expenditures and
 Changes in Fund Balance-Budget (Budget Basis) and Actual
 ARRA Special Revenue Fund (89000)
 For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual (Budget) Basis</u>	<u>Variances Favorable (Unfavorable) Final to Actual</u>
	<u>Original</u>	<u>Final</u>		
<i>Revenues:</i>				
Federal operating grants	\$ 36,854	\$ 36,584	\$ 36,584	\$ -
<i>Total revenues</i>	<u>36,854</u>	<u>36,584</u>	<u>36,584</u>	<u>-</u>
<i>Expenditures:</i>				
Current:				
Personnel services	6,557	6,309	6,309	-
Contractual services	29,423	29,423	29,423	-
Other costs	604	852	852	-
<i>Total expenditures</i>	<u>36,584</u>	<u>36,584</u>	<u>36,584</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>270</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Other financing sources (uses)</i>				
Internal transfers	-	-	-	-
State general fund appropriation	-	-	-	-
Compensation appropriation	-	-	-	-
Special appropriation	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balances</i>	<u>\$ 270</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

STATE OF NEW MEXICO

Exhibit C-4

New Mexico Department of Information Technology
 Statement of Revenues, Expenditures and
 Changes in Fund Balance-Budget (Budget Basis) and Actual
 State and Local Implementation Grants Special Revenue Fund (11890)
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (Budget) Basis	Variations Favorable (Unfavorable) Final to Actual
	Original	Final		
<i>Revenues:</i>				
Federal operating grants	\$ 444,000	\$ 514,000	\$ 314,909	\$ (199,091)
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>444,000</u>	<u>514,000</u>	<u>314,909</u>	<u>(199,091)</u>
<i>Expenditures:</i>				
Current:				
Personnel services	138,800	208,800	190,913	17,887
Contractual services	192,300	192,300	71,493	120,807
Other costs	76,500	76,500	52,503	23,997
Capital outlay	-	-	-	-
<i>Total expenditures</i>	<u>407,600</u>	<u>477,600</u>	<u>314,909</u>	<u>162,691</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>36,400</u>	<u>36,400</u>	<u>-</u>	<u>(36,400)</u>
<i>Other financing sources (uses)</i>				
Internal transfers	(36,400)	(36,400)	-	36,400
State general fund appropriation	-	-	-	-
Compensation appropriation	-	-	-	-
Special appropriation	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(36,400)</u>	<u>(36,400)</u>	<u>-</u>	<u>36,400</u>
<i>Net change in fund balances</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Statement of Net Position
Enterprise Funds
June 30, 2017

	Enterprise Services (20310)	SHARE Operating (20360)
	<u> </u>	<u> </u>
ASSETS		
<i>Current assets:</i>		
Investment in state treasurer's general fund investment pool (SGFIP)	\$ 12,526,676	\$ 3,691,756
Accounts receivable, net of allowance for uncollectible accounts	13,555,328	195,671
Due from other funds	-	-
<i>Total current assets</i>	<u>26,082,004</u>	<u>3,887,427</u>
<i>Noncurrent assets:</i>		
Capital assets, net of accumulated depreciation	<u>21,432,248</u>	<u>21,629,196</u>
<i>Total noncurrent assets</i>	<u>21,432,248</u>	<u>21,629,196</u>
<i>Total assets</i>	<u><u>\$ 47,514,252</u></u>	<u><u>\$ 25,516,623</u></u>
LIABILITIES AND NET POSITION		
<i>Liabilities</i>		
<i>Current liabilities:</i>		
Accounts payable	\$ 4,086,250	\$ 529,569
Accrued payroll	386,155	60,732
Due to other state agencies	383,180	-
Due to other funds	24,539,165	1,663,035
Compensated absences	568,700	100,064
<i>Total current liabilities</i>	<u>29,963,450</u>	<u>2,353,400</u>
<i>Total liabilities</i>	<u>29,963,450</u>	<u>2,353,400</u>
<i>Net position</i>		
Net investment in capital assets	21,432,248	21,629,196
Restricted	-	1,534,027
Unrestricted	<u>(3,881,446)</u>	<u>-</u>
<i>Total net position</i>	<u>17,550,802</u>	<u>23,163,223</u>
<i>Total liabilities and net position</i>	<u><u>\$ 47,514,252</u></u>	<u><u>\$ 25,516,623</u></u>

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

Program Support Fund (20320)	Enterprise ERF (96880)	SHARE ERF (96870)	Total Enterprise Funds
\$ 665,673	\$ 10,923,954	\$ 10,717,451	\$ 38,525,510
-	-	-	13,750,999
-	24,539,165	1,663,035	26,202,200
<u>665,673</u>	<u>35,463,119</u>	<u>12,380,486</u>	<u>78,478,709</u>
-	-	-	43,061,444
-	-	-	43,061,444
<u>\$ 665,673</u>	<u>\$ 35,463,119</u>	<u>\$ 12,380,486</u>	<u>\$ 121,540,153</u>
\$ 394,461	\$ 563,160	\$ 1,325,183	\$ 6,898,623
107,748	-	-	554,635
-	-	-	383,180
-	-	-	26,202,200
163,464	-	-	832,228
<u>665,673</u>	<u>563,160</u>	<u>1,325,183</u>	<u>34,870,866</u>
<u>665,673</u>	<u>563,160</u>	<u>1,325,183</u>	<u>34,870,866</u>
-	-	-	43,061,444
-	34,899,959	11,055,304	47,489,290
-	-	-	(3,881,446)
-	34,899,959	11,055,304	86,669,288
<u>\$ 665,673</u>	<u>\$ 35,463,119</u>	<u>\$ 12,380,486</u>	<u>\$ 121,540,153</u>

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

STATE OF NEW MEXICO
 New Mexico Department of Information Technology
 Statement of Revenues, Expenses and Changes in Net Position
 Enterprise Funds
 For the Year Ended June 30, 2017

	Enterprise Services (20310)	SHARE Operating (20360)
	<u> </u>	<u> </u>
OPERATING REVENUES:		
User fees	\$ 52,778,335	\$ 9,065,856
Other revenues	7,309	-
	<u> </u>	<u> </u>
<i>Total revenues</i>	<u>52,785,644</u>	<u>9,065,856</u>
OPERATING EXPENSES:		
Personnel services	10,255,920	1,647,501
Contractual services	5,424,580	2,693,147
Other costs	25,728,584	892,393
Depreciation expense	6,180,222	1,663,035
	<u> </u>	<u> </u>
<i>Total expenses</i>	<u>47,589,306</u>	<u>6,896,076</u>
<i>Operating (loss) income</i>	<u>5,196,338</u>	<u>2,169,780</u>
NON-OPERATING REVENUES (EXPENSES):		
Investment income	-	-
Loss on disposal of capital assets	(1,143)	-
FY17 Reversions	-	-
Internal transfers of capital assets	2,569,191	13,286,827
Internal transfers	(8,801,290)	(1,999,523)
	<u> </u>	<u> </u>
<i>Total non-operating revenues (expenses)</i>	<u>(6,233,242)</u>	<u>11,287,304</u>
<i>Change in net position</i>	(1,036,904)	13,457,084
<i>Net position - beginning of year</i>	<u>18,587,706</u>	<u>9,706,139</u>
<i>Net position - end of year</i>	<u>\$ 17,550,802</u>	<u>\$ 23,163,223</u>

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

Program Support Fund (20320)	Enterprise ERF (96880)	SHARE ERF (96870)	Total Enterprise Funds
\$ -	\$ -	\$ -	\$ 61,844,191
20,368	-	-	27,677
<u>20,368</u>	<u>-</u>	<u>-</u>	<u>61,871,868</u>
2,562,803	-	-	14,466,224
556,989	-	-	8,674,716
253,276	-	-	26,874,253
-	-	-	7,843,257
<u>3,373,068</u>	<u>-</u>	<u>-</u>	<u>57,858,450</u>
<u>(3,352,700)</u>	<u>-</u>	<u>-</u>	<u>4,013,418</u>
-	5,307	63,040	68,347
-	(20,441)	-	(21,584)
(15)	-	-	(15)
-	(455,271)	(9,450,026)	5,950,721
<u>3,115,556</u>	<u>6,180,222</u>	<u>1,063,035</u>	<u>(442,000)</u>
<u>3,115,541</u>	<u>5,709,817</u>	<u>(8,323,951)</u>	<u>5,555,469</u>
(237,159)	5,709,817	(8,323,951)	9,568,887
<u>237,159</u>	<u>29,190,142</u>	<u>19,379,255</u>	<u>77,100,401</u>
<u>\$ -</u>	<u>\$ 34,899,959</u>	<u>\$ 11,055,304</u>	<u>\$ 86,669,288</u>

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

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2017

	Enterprise Services (20310)	SHARE Operating (20360)
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 50,906,658	\$ 9,096,634
Cash payments to suppliers	(32,633,749)	(3,436,264)
Cash payments to employees for services	(10,229,842)	(1,648,340)
	<u> </u>	<u> </u>
<i>Net cash provided (used) by operating activities</i>	8,043,067	4,012,030
	<u> </u>	<u> </u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Special appropriations	-	-
Transfers in (out) from other funds	(12,072,504)	(3,658,624)
	<u> </u>	<u> </u>
<i>Net cash provided (used) by non-capital financing activities</i>	(12,072,504)	(3,658,624)
	<u> </u>	<u> </u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(605,021)	-
	<u> </u>	<u> </u>
<i>Net cash (used) by capital financing activities</i>	(605,021)	-
	<u> </u>	<u> </u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	-	-
	<u> </u>	<u> </u>
<i>Net cash provided by investing activities</i>	-	-
	<u> </u>	<u> </u>
<i>Net increase (decrease) in Investments, State Treasurer</i>	(4,634,458)	353,406
INVESTMENTS, STATE TREASURER, BEGINNING OF YEAR	17,161,134	3,338,350
	<u> </u>	<u> </u>
INVESTMENTS, STATE TREASURER, END OF YEAR	<u>\$ 12,526,676</u>	<u>\$ 3,691,756</u>

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

Program Support Fund (20320)	Enterprise ERF (96880)	SHARE ERF (96870)	Total Enterprise Funds
\$ 20,368	\$ -	\$ -	\$ 60,023,660
(489,916)	-	-	(36,559,929)
(2,837,603)	-	-	(14,715,785)
<u>(3,307,151)</u>	<u>-</u>	<u>-</u>	<u>8,747,946</u>
-	-	-	-
<u>2,975,189</u>	<u>9,808,476</u>	<u>3,389,463</u>	<u>442,000</u>
<u>2,975,189</u>	<u>9,808,476</u>	<u>3,389,463</u>	<u>442,000</u>
-	(136,732)	(9,269,194)	(10,010,947)
<u>-</u>	<u>(136,732)</u>	<u>(9,269,194)</u>	<u>(10,010,947)</u>
-	5,307	63,040	68,347
<u>-</u>	<u>5,307</u>	<u>63,040</u>	<u>68,347</u>
(331,962)	9,677,051	(5,816,691)	(752,654)
<u>997,635</u>	<u>1,246,903</u>	<u>16,534,142</u>	<u>39,278,164</u>
<u>\$ 665,673</u>	<u>\$ 10,923,954</u>	<u>\$ 10,717,451</u>	<u>\$ 38,525,510</u>

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

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2017

	Enterprise Services (20310)	SHARE Operating (20360)
OPERATING INCOME (LOSS)	\$ 5,196,338	\$ 2,169,780
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	6,180,222	1,663,035
FY17 Reversions	-	-
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	(1,766,817)	42,401
(Increase) in due from other agencies	-	-
Increase (Decrease) in accounts payable	(1,968,691)	137,653
Increase in due to other state agencies	375,937	-
Increase in accrued payroll	29,784	1,417
Decrease in compensated absences	(3,706)	(2,256)
Total adjustments	2,846,729	1,842,250
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 8,043,067	\$ 4,012,030
Noncash items:		
Noncash items affecting capital assets (see note 12)		

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

Program Support Fund (20320)	Enterprise ERF (96880)	SHARE ERF (96870)	Total Enterprise Funds
\$ (3,352,700)	\$ -	\$ -	\$ 4,013,418
-	-	-	7,843,257
(15)	-	-	(15)
-	-	-	(1,724,416)
23,144	-	-	23,144
297,220	-	-	(1,533,818)
-	-	-	375,937
26,231	-	-	57,432
(301,031)	-	-	(306,993)
45,549	-	-	4,734,528
<u>\$ (3,307,151)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,747,946</u>

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

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Notes to Financial Statements
June 30, 2017

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

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Notes to Financial Statements
June 30, 2017

NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)

- Security services
 - o Firewall
 - o Virtual private network

- Oversight and compliance
 - o Agency IT planning guidance
 - o Project certification and oversight
 - o Project management guidance
 - o 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 Secretary of the Department 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

This summary of significant accounting policies of the Department is presented to assist in the understanding of the Department's financial statements. The financial statements and notes are the representation of the Department's management who is responsible for their integrity and objectivity. 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 agencies of the government. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Department's accounting policies are described below:

During the year ended June 30, 2017, the Department fully adopted GASB Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, No. 77, Tax Abatement Disclosures, No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, No. 79, Certain External Investment Pools and Pool Participants, No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14, No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73, are required to be implemented for the fiscal year ending June 30, 2017.

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Notes to Financial Statements
June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effective for June 30, 2017 year ends, the requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that, for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets.

It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities if applicable. At June 30, 2017, the Liabilities, Deferred In-flows, and Deferred Out-flows of the Department are only included in the primary government of the State of New Mexico, and its financial data that is included with the financial data in the State of New Mexico's Comprehensive Annual Financial Report.

Financial Reporting Entity

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.

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Notes to Financial Statements
June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The Department's estimates include the allowance for uncollectible accounts and useful lives of depreciable assets.

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 position 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.

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 position, 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 position is reported in three parts: invested in capital assets; restricted net position and unrestricted net position. When applicable, the effect of interfund activity is removed from the statement of net position 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 broadband technology, information technology management, radio communications, and the center for advanced computing. The business-type functions include Enterprise services, SHARE operating 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.

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Notes to Financial Statements
June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 Department classifies all of its funds as major 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) 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.

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Notes to Financial Statements
June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

On February 13, 2009, the U.S. Congress passed the American Recovery and Reinvestment Act (ARRA) 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 Department records all ARRA activity in this special revenue fund (SHARE 89000). The ARRA fund is non-reverting.

The Severance Tax Bonds Capital Outlay capital projects fund (SHARE 89200) is used to account for the acquisition, improvement, alteration, or reconstruction of long-term assets utilizing severance tax proceeds. This is a reverting fund.

On February 19, 2014, the Section 6-3-23 (D) NMSA 1978 and Section 9-1-5C NMSA 1978 created the State and Local Implementation Grants special revenue fund (SHARE 11890) for purposes of planning and funding the national public safety broadband network through the completion of activities relating to the governance, consultation of FirstNet and engagement of stakeholders. The fund is a nonreverting fund.

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 in 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 Enterprise Services (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 SHARE Operating 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) which 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 SHARE ERF and Enterprise ERF 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

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Notes to Financial Statements
June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

equipment in the Enterprise Services Fund (SHARE 20310). Replacement funds in 96870 are intended to replace equipment in the SHARE Operating Fund (SHARE 20360). These funds are non-reverting funds.

The fund names were updated in fiscal year 2017. The Central Telephone Services Fund (20310)'s name was changed to Enterprise Services. The ISD-OIP Human Resources Fund (SHARE 20360)'s name was changed to SHARE Operating. The Equipment Replacement Fund (SHARE 96870)'s name was changed to SHARE ERF. The Equipment Replacement Fund (SHARE 96880)'s name was changed to Enterprise ERF.

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, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions should be recognized when the exchange takes 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 inflow 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.

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Notes to Financial Statements
June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

- 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
New Mexico Department of Information Technology
Notes to Financial Statements
June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in State General Fund Investment Pool

The Department does not have a separate bank account and 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 position 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 position.

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). Transfers of capital assets between funds relate to capital outlay purchases in governmental funds that are used for the Department's Enterprise Services operations. The capital outlay purchases in governmental funds are generally funded through special appropriations and severance tax bond proceeds. Capital assets acquired by governmental and business-type funds are reported in those funds at cost.

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

STATE OF NEW MEXICO
 New Mexico Department of Information Technology
 Notes to Financial Statements
 June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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		Accrual Rate
At Least	Less Than	Per Pay Period (In Hours)
1 month	3.0	3.08
3.0	7.0	3.69
7.0	11.0	4.61
11.0	15.0	5.54
15.0	beyond	6.15

The current portion of compensated absences is expected to be expended during the fiscal year 2017. Department general fund and enterprise fund resources have been used to liquidate accrued compensated absences.

Pensions

The Department, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico. The net pension liability is a long-term liability that is not directly related to or expected to be paid from the Department's enterprise funds and therefore not reported in the Department's Statement of Net Position. Information concerning the net pension liability, pension expense, and pension-related deferred inflow and outflow of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building 407 Galisteo Street, Santa Fe, New Mexico, 87501. For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to /deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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New Mexico Department of Information Technology
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June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 payables amounts owed for goods and services received by June 30, 2017. Any State General Fund appropriations remaining in the general fund (SHARE 20370) and special revenue fund (SHARE 20340) fund balance not restricted is reverted to the state general fund.

Net Position/Fund Equity

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

Net position is reported as restricted when constraints placed on net position 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.

These resources remaining in net position 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 position consists of net position that does not meet the definition of restricted or net investment in capital assets.

In the governmental fund financial statements, fund balances are classified as non-spendable, 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. The Department has presented restricted fund balance on the governmental funds balance sheet in the amount of \$110,022 for equipment infrastructure for public safety radio communication for emergency responders.

In the proprietary funds Statement of Net Position, the Department has presented restricted net position in the amount of \$47,489,290 for capital replacement.

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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Department did not have any items that qualified for reporting in this category as of June 30, 2017.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Department did not have any items that were required to be reported in this category as of June 30, 2017.

NOTE 3 - STATE GENERAL FUND INVESTMENT POOL

The Department does not have a separate bank account. For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

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

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book

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NOTE 3 - STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

An interagency memorandum dated August 8, 2016 from the State Controller noted that DFA had implemented a comprehensive reconciliation model that compared the agency claims on the State General Fund Investment Pool to the associated resources held by the State Treasurer's Office which had been reviewed by Independent Public Accountants performing audits of the General Fund, and the State of New Mexico's Comprehensive Annual Financial Report for fiscal year 2016. Each review of the process deemed it to be adequate and the findings related to cash reconciliation were significantly reduced or eliminated. Successfully addressing the issue allowed DFA to reinstate the \$100 million that had been previously reserved as a loss contingency. The following items were noted:

1. The calculated difference between the resources maintained by the State Treasurer's Office and the agency claims has remained stable within a narrow and acceptable range (\$200K standard deviation) over the last twelve months;
2. Resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP
3. All claims will be honored at face value.

The Department has established daily and monthly procedures that mitigate the risk of misstatement of the Department's balances within the 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. Given these mitigating controls the impact of the reconciling items on the Department's State General Fund Investment Pool account balances is minimal.

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.

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.

The Department does not have a separate bank account. 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):

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NOTE 3 - STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

<u>Fund</u>	<u>Type of Account</u>	<u>SHARE Fund No.</u>	<u>Reconciled balance</u>
General Fund Information			
Technology Management Office	Investment	20370	\$ 147,992
Radio Communications	Investment	20340	1,121,257
State and local government grants	Investment	11890	(26,481)
Severance Tax Bonds Capital Outlay	Investment	89200	<u>15,651</u>
Total governmental funds			<u>1,258,419</u>
Enterprise services	Investment	20310	12,526,676
SHARE operating	Investment	20360	3,691,756
Program support fund	Investment	20320	665,673
Enterprise ERF	Investment	96880	10,923,954
SHARE ERF	Investment	96870	<u>10,717,451</u>
Total enterprise funds			<u>38,525,510</u>
Total share of state general fund investment pool			<u><u>\$ 39,783,929</u></u>

NOTE 4 - ACCOUNTS RECEIVABLE

The Department provides enterprise information technology services to State government's executive branch Accounts receivable at June 30, 2017 for the Department's enterprise funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Enterprise Services (20310)</u>	<u>SHARE Operating (20360)</u>	<u>Total Enterprise Funds</u>
Gross accounts receivable	\$ 14,764,576	\$ 275,969	\$ 15,040,545
Less allowance for uncollectible accounts	<u>(1,209,248)</u>	<u>(80,298)</u>	<u>(1,289,546)</u>
Receivables, net	<u>\$ 13,555,328</u>	<u>\$ 195,671</u>	<u>\$ 13,750,999</u>

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

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NOTE 5 - CAPITAL ASSETS

The capital assets activity for the year ended June 30, 2017 is as follows:

	Governmental activities					
	June 30, 2016	Additions	Adjustments	Deletions	Transfers to Business-Type	
Capital assets not being depreciated						
Construction in progress	\$ 56,844	\$ 3,929,636	\$ (56,844)	\$ -	\$ (3,929,636)	\$ -
Total capital assets not being depreciated	56,844	3,929,636	(56,844)	-	(3,929,636)	-
Capital assets being depreciated						
Buildings and improvements	602,003	12,216	(470,946)	-	(12,216)	131,057
Autos & trucks	59,999	-	-	-	-	59,999
Machinery & equipment	9,653,808	1,605,343	(7,621,566)	-	(1,605,343)	2,032,242
Data processing	38,223,490	403,526	8,113,228	(11,005,035)	(403,526)	35,331,683
Total capital assets being depreciated	48,539,300	2,021,085	20,716	(11,005,035)	(2,021,085)	37,554,981
Total capital assets	48,596,144	5,950,721	(36,128)	(11,005,035)	(5,950,721)	37,554,981
Less accumulated depreciation						
Buildings and improvements	(15,260)	(198)	3,550	-	2,079	(9,829)
Autos & trucks	(5,000)	(10,892)	-	-	892	(15,000)
Machinery & equipment	(958,826)	(1,818,651)	1,057,144	-	1,113,149	(607,184)
Data processing	(12,684,479)	(5,628,289)	(1,065,461)	11,005,035	990,320	(7,382,874)
Total accumulated depreciation	(13,663,565)	(7,458,030)	(4,767)	11,005,035	2,106,440	(8,014,887)
Capital assets, net of accumulated depreciation	\$ 34,932,579	\$ (1,507,309)	\$ (40,895)	\$ -	\$ (3,844,281)	\$ 29,540,094

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New Mexico Department of Information Technology
Notes to Financial Statements
June 30, 2017

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Transfers of capital assets in the amount of \$5,950,721 relate to capital outlay purchases in governmental funds that are used for the Department's Enterprise Services operations. The capital outlay purchases in governmental funds are generally funded through special appropriations and severance tax bond proceeds.

	Business-type activities					June 30, 2017
	June 30, 2016	Additions	Adjustments	Deletions	Internal Transfers	
Capital assets not being depreciated						
Construction in progress	\$ 6,712,857	\$ 9,450,027	\$ (164,461)	\$ -	\$ 3,929,636	\$ 19,928,059
Total capital assets not being depreciated	6,712,857	9,450,027	(164,461)	-	3,929,636	19,928,059
Capital assets being depreciated						
Buildings and improvements	16,687,547	-	164,461	-	12,216	16,864,224
Auto and trucks	79,115	-	-	(41,000)	-	38,115
Machinery and equipment	32,386,975	333,904	(820,694)	(885,919)	1,605,343	32,619,609
Furniture and office equipment	110,970	-	-	-	-	110,970
Data processing	66,749,161	920,441	820,696	(3,689,258)	403,526	65,204,566
Total capital assets being depreciated	116,013,768	1,254,345	164,463	(4,616,177)	2,021,085	114,837,484
Total capital assets	122,726,625	10,704,372	2	(4,616,177)	5,950,721	134,765,543
Less accumulated depreciation						
Construction in progress	-	-	-	-	-	-
Buildings and improvements	(8,448,602)	(744,123)	992	-	(2,079)	(9,193,812)
Auto and trucks	(71,514)	-	1	41,000	(892)	(31,405)
Machinery and equipment	(28,587,453)	(1,488,755)	3,774	884,776	(1,113,149)	(30,300,807)
Furniture and office equipment	(110,970)	-	-	-	-	(110,970)
Data processing	(51,063,281)	(3,508,707)	-	3,495,203	(990,320)	(52,067,105)
Total accumulated depreciation	(88,281,820)	(5,741,585)	4,767	4,420,979	(2,106,440)	(91,704,099)
Capital assets, net of accumulated depreciation	\$ 34,444,805	\$ 4,962,787	\$ 4,769	\$ (195,198)	\$ 3,844,281	\$ 43,061,444

STATE OF NEW MEXICO
 New Mexico Department of Information Technology
 Notes to Financial Statements
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NOTE 5 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	
Broadband Technology	<u>\$ 5,356,357</u>
Total depreciation expense-governmental activities	<u><u>\$ 5,356,357</u></u>
Business-type activities:	
Enterprise Operating	\$ 6,180,222
SHARE Operating	<u>1,663,035</u>
Total depreciation expense-business-type activities	<u><u>\$ 7,843,257</u></u>

NOTE 6 - 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 balances are expected to be settled within one year.

Due from and due to other funds as of June 30, 2017 are as follows:

	<u>Due from</u>	<u>Due to</u>
Business-type activities:		
Enterprise Services (20310)	\$ -	\$ 24,539,165
SHARE Operating (20360)	-	1,663,035
SHARE ERF (96870)	1,663,035	-
Enterprise ERF (96880)	<u>24,539,165</u>	<u>-</u>
Grand total	<u><u>\$ 26,202,200</u></u>	<u><u>\$ 26,202,200</u></u>

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NOTE 7 - DUE FROM / TO OTHER AGENCIES

A summary of amounts due from other state agencies as of June 30, 2017:

Department Fund	Agency	Agency Number	Fund Number	Amount	Purpose
Governmental funds:					
89200	DFA-Board of Finance	34103	20610	\$ 28,962	Draws for STB14A
89200	DFA-Board of Finance	34103	20610	<u>210,901</u>	Draws for STB15A
Total governmental funds				<u>\$ 239,863</u>	

NOTE 8 - CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2017 is as follows:

	Governmental activities				
	June 30, 2016	Additions	Deletions	June 30, 2017	Due within one Year
Compensated absences	<u>\$ 59,995</u>	<u>\$ 32,240</u>	<u>\$ 46,683</u>	<u>\$ 45,552</u>	<u>\$ 45,552</u>
	Business-type activities				
	June 30, 2016	Additions	Deletions	June 30, 2017	Due within one Year
Compensated absences	<u>\$ 819,614</u>	<u>\$ 997,856</u>	<u>\$ 985,242</u>	<u>\$ 832,228</u>	<u>\$ 832,228</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 9 - PENSION PLAN - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Compliant with the requirements of Government Accounting Standards Board Statement No. 68 Accounting and Financial Reporting for Pensions, the State of New Mexico has implemented the standard for fiscal years ending June 30, 2016 and 2017. The Department, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA).

Disclosure requirements including schedules of required supplementary information and related notes for governmental funds apply to the primary government as a whole, and as such this information will be presented in the Component Appropriation Funds Annual Financial Report General Fund and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico. The net pension liability is a long-term liability that is not directly related to or expected to be paid from the Department's enterprise funds and therefore not reported in the Department's Statement of Net Position. Information concerning the net pension liability, pension expense, and pension-related deferred inflow and outflow of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building 407 Galisteo Street, Santa Fe, New Mexico, 87501.

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NOTE 10 - 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 Department 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 event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

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NOTE 10 - POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN (CONTINUED)

The Department's contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015 were \$212,235, \$210,086, and \$223,279, respectively, which equal the required contributions for each year.

NOTE 11 - 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, 2017 excluding 1-year equipment and vehicle leases totaled approximately \$247,028.

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, 2017.

Year ending June 30:

	Amount
2018	\$ 249,194
2019	181,149
2020	173,880
2021	165,459
2022 and thereafter	81,978
Total	\$ 851,660

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, 2016 through June 30, 2017. There have been no settlements in excess of insurance coverage as of June 30, 2017.

Federal Grants

The Department receives federal grants for various specific purposes. These grants are subject to audit, which may result in requests for reimbursements to granting agencies for expenditures disallowed under the terms of the grants. There were no such disallowances as of June 30, 2017. The Department was owed \$57,328 in requests for reimbursement as of June 30, 2017 which is approximately 19% of receivables for governmental activities at June 30, 2017.

STATE OF NEW MEXICO
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NOTE 12 - INTERFUND TRANSFERS

The following amounts were transferred between funds within the Department's fund structure for purposes of covering the cost of program support, to record amounts due to the equipment replacement, and Transfers of capital assets between funds are detailed below.

	<u>Transfers in</u>	<u>Transfers out</u>
Enterprise Services (20310)	\$ -	\$ 2,621,068
SHARE Operating (20360)	-	336,488
General Fund Information Technology Management Office (20370)	-	158,000
Program Support Fund (20320)	<u>3,115,556</u>	<u>-</u>
	3,115,556	3,115,556
Severance Tax Bonds Capital Outlay (89200)	-	1,131,463
Enterprise ERF (96880)	-	455,271
Radio Communications (20340)	-	982,457
Enterprise Services (20310)	<u>2,569,191</u>	<u>-</u>
	2,569,191	2,569,191
SHARE ERF (96870)	-	9,450,027
Radio Communications (20340)	-	3,836,800
SHARE Operating (20360)	<u>13,286,827</u>	<u>-</u>
	13,286,827	13,286,827
Enterprise ERF (96880)	6,180,222	-
Enterprise Services (20310)	<u>-</u>	<u>6,180,222</u>
	6,180,222	6,180,222
SHARE ERF (96870)	1,663,035	-
SHARE Operating (20360)	<u>-</u>	<u>1,663,035</u>
	1,663,035	1,663,035
Radio Communications (20340)	600,000	-
SHARE ERF (96870)	<u>-</u>	<u>600,000</u>
	600,000	600,000
Grand total	<u>\$ 27,414,831</u>	<u>\$ 27,414,831</u>

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NOTE 13 - TRANSFERS FROM OTHER AGENCIES

Please refer to the schedule of appropriations and severance tax bond proceeds (schedule I) for the status of special appropriations and severance tax bond proceeds as well as more details regarding the purpose for which they were appropriated.

Department Fund	Agency	Agency Number	Fund Number	Amount	Purpose
Governmental funds:					
89200	DFA	34103	20610	\$ 268,843	Severance tax bond proceeds
89200	DFA	34103	50230	<u>862,620</u>	Severance tax bond proceeds
		Subtotal (89200)		<u>1,131,463</u>	
20370	DFA	34101	85300	<u>885,400</u>	General fund appropriation
		Subtotal (20370)		<u>885,400</u>	
20340	DFA	34100	00900	3,500,000	Special appropriation
20340	DFA	34100	00900	<u>600,000</u>	Special appropriation
		Subtotal (20340)		<u>4,100,000</u>	
		Total governmental funds		<u>\$ 6,116,863</u>	

NOTE 14 - SUBSEQUENT PRONOUNCEMENTS

In June 2015, GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. The Department is still evaluating how this pronouncement will affect the financial statements.

In January 2017, GASB Statement No. 84, *Fiduciary Activities*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The standard will be implemented during the fiscal year ended June 30, 2020. The Department is still evaluating how this pronouncement will affect the financial statements.

In March 2017, GASB Statement No. 85, *Omnibus 2017*, was issued. Effective Date: The provisions of this Statement are effective for periods beginning after June 15, 2017. The Department is still evaluating how this pronouncement will affect the financial statements.

In May 2017, GASB Statement No. 86, *Certain Debt Extinguishment Issues*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The Department does not expect this pronouncement to have a material effect on the financial statements.

NOTE 15 - SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2017, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosures is October 20, 2017, which is the date on which the financial statements were available to be issued. No events were noted for disclosure.

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Notes to Financial Statements
June 30, 2017

NOTE 16 - RESTRICTED NET POSTION

The Department's statement of net position shows net position restricted by enabling legislation of \$110,022 for constructing and equipment infrastructure for public safety radio communication for emergency responders, and \$47,489,290 for capital replacement.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO

Exhibit E-1

New Mexico Department of Information Technology
 Statement of Revenues, Expenditures and
 Changes in Fund Balance-Budget (Budget Basis) and Actual
 Severance Tax Bonds Capital Outlay Capital Projects Fund (89200)
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (Budget) Basis	Variances Favorable
	Original	Final		(Unfavorable) Final to Actual
<i>Revenues:</i>				
Other revenue	\$ -	\$ -	\$ -	\$ -
<i>Total revenues</i>	-	-	-	-
<i>Expenditures:</i>				
<i>Current:</i>				
Personnel services and employee benefits	-	-	-	-
Contractual services	15,198	37,698	14,608	23,090
Other costs	1,284,187	1,261,687	1,116,855	144,832
<i>Total expenditures</i>	1,299,385	1,299,385	1,131,463	167,922
<i>Excess (deficiency) of revenues over expenditures</i>	(1,299,385)	(1,299,385)	(1,131,463)	167,922
<i>Other financing sources (uses)</i>				
Internal transfers	-	-	-	-
Severance bond tax proceeds	1,299,385	1,299,385	1,131,463	(167,922)
Miscellaneous revenue	-	-	-	-
Compensation appropriation	-	-	-	-
<i>Total other financing sources (uses)</i>	1,299,385	1,299,385	1,131,463	(167,922)
<i>Net change in fund balances</i>	\$ -	\$ -	\$ -	\$ -
Reversion expenditure omitted from budget basis			-	
Net change in fund balance GAAP basis			\$ -	

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

STATE OF NEW MEXICO

Exhibit E-2

New Mexico Department of Information Technology
Statement of Revenues, Expenses and
Changes in Net Position-Budget (Budget Basis) and Actual
Enterprise Services Enterprise Fund (20310)
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (Budget) Basis	Variances Favorable
	Original	Final		(Unfavorable) Final to Actual
<i>Revenues:</i>				
User fees	\$ 46,913,000	\$ 46,913,000	\$ 52,778,335	\$ 5,865,335
Other revenues	-	-	7,309	7,309
<i>Total revenues</i>	<u>46,913,000</u>	<u>46,913,000</u>	<u>52,785,644</u>	<u>5,872,644</u>
<i>Expenses:</i>				
<i>Current:</i>				
Personnel services and employee benefits	12,625,900	10,306,900	10,255,920	50,980
Contractual services	6,437,500	5,433,700	5,424,580	9,120
Other costs	20,223,600	26,546,400	25,616,414	929,986
<i>Total expenses</i>	<u>39,287,000</u>	<u>42,287,000</u>	<u>41,296,914</u>	<u>990,086</u>
<i>Excess (deficiency) of revenues over expenses</i>	<u>7,626,000</u>	<u>4,626,000</u>	<u>11,488,731</u>	<u>6,862,730</u>
<i>Other financing sources (uses)</i>				
Internal transfers	(7,626,000)	(4,626,000)	(2,621,068)	2,004,932
State general fund appropriation	-	-	-	-
Compensation appropriation	-	-	-	-
Special appropriation	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(7,626,000)</u>	<u>(4,626,000)</u>	<u>(2,621,068)</u>	<u>2,004,932</u>
<i>Change in net position</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,867,663</u>	<u>\$ 8,867,662</u>
Change in net position (budgetary basis)			\$ 8,867,663	
Depreciation expense			(6,180,222)	
Loss on disposal of capital assets			(1,143)	
Bad Debt Expense			(112,170)	
Adjustment to internal balances for equipment replacement			(6,180,222)	
Internal transfers of capital assets			<u>2,569,191</u>	
Change in net position GAAP basis			<u>\$ (1,036,904)</u>	

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

STATE OF NEW MEXICO
 New Mexico Department of Information Technology
 Statement of Revenues, Expenses and
 Changes in Net Position-Budget (Budget Basis) and Actual
 SHARE Operating Enterprise Fund (20360)
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (Budget) Basis	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		
<i>Revenues:</i>				
User fees	\$ 9,796,800	\$ 9,796,800	\$ 9,065,856	\$ (730,944)
Other revenues	-	-	-	-
<i>Total revenues</i>	<u>9,796,800</u>	<u>9,796,800</u>	<u>9,065,856</u>	<u>(730,944)</u>
<i>Expenses:</i>				
<i>Current:</i>				
Personnel services and employee benefits	2,093,600	1,663,600	1,647,501	16,100
Contractual services	2,430,000	2,780,000	2,693,147	86,853
Other costs	917,100	997,100	880,769	116,330
<i>Total expenses</i>	<u>5,440,700</u>	<u>5,440,700</u>	<u>5,221,417</u>	<u>219,283</u>
<i>Excess (deficiency) of revenues over expenses</i>	<u>4,356,100</u>	<u>4,356,100</u>	<u>3,844,439</u>	<u>(511,661)</u>
<i>Other financing sources (uses)</i>				
Internal transfers	(4,356,100)	(4,356,100)	(336,488)	4,019,612
State general fund appropriation	-	-	-	-
Compensation appropriation	-	-	-	-
Special appropriation	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(4,356,100)</u>	<u>(4,356,100)</u>	<u>(336,488)</u>	<u>4,019,612</u>
<i>Change in net position</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,507,951</u>	<u>\$ 3,507,951</u>
Change in net position (budgetary basis)			\$ 3,507,951	
Depreciation expense			(1,663,035)	
Bad Debt Expense			(11,624)	
Adjustment to due to other funds for equipment replacement			(1,663,035)	
Internal transfers of capital assets			<u>13,286,827</u>	
Change in net position GAAP basis			<u>\$ 13,457,084</u>	

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

STATE OF NEW MEXICO

Exhibit E-4

New Mexico Department of Information Technology
Statement of Revenues, Expenses and
Changes in Net Position-Budget (Budget Basis) and Actual
Program Support Fund Enterprise Fund (20320)
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (Budget) Basis	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
<i>Revenues:</i>				
User fees	\$ -	\$ -	\$ -	\$ -
Other revenues	-	-	20,368	20,368
<i>Total revenues</i>	-	-	20,368	20,368
<i>Expenses:</i>				
<i>Current:</i>				
Personnel services and employee benefits	3,090,000	2,628,986	2,562,803	66,183
Contractual services	118,370	557,384	556,989	395
Other costs	266,490	288,490	253,276	35,214
<i>Total expenses</i>	3,474,860	3,474,860	3,373,068	101,791
<i>Excess (deficiency) of revenues over expenses</i>	(3,474,860)	(3,474,860)	(3,352,700)	122,159
<i>Other financing sources (uses)</i>				
Internal transfers	3,237,700	3,237,700	3,115,556	(122,144)
State general fund appropriation	-	-	-	-
FY17 Reversions	-	-	(15)	(15)
Special appropriation	-	-	-	-
<i>Total other financing sources (uses)</i>	3,237,700	3,237,700	3,115,541	(122,159)
<i>Change in net position</i>	\$ (237,160)	\$ (237,160)	\$ (237,159)	\$ -

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

STATE OF NEW MEXICO

Exhibit E-5

New Mexico Department of Information Technology
Statement of Revenues, Expenses and
Changes in Net Position-Budget (Budget Basis) and Actual
Enterprise ERF Enterprise Fund (96880)
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (Budget) Basis	Variances Favorable
	Original	Final		(Unfavorable) Final to Actual
<i>Revenues:</i>				
User fees	\$ -	\$ -	\$ -	\$ -
Other revenues	-	-	-	-
<i>Total revenues</i>	-	-	-	-
<i>Expenses:</i>				
<i>Current:</i>				
Personnel services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other costs	4,892,900	4,892,900	455,271	4,437,629
<i>Total expenses</i>	4,892,900	4,892,900	455,272	4,437,629
<i>Excess (deficiency) of revenues over expenses</i>	(4,892,900)	(4,892,900)	(455,272)	4,437,629
<i>Other financing sources (uses)</i>				
Internal transfers	4,892,900	4,892,900	6,180,222	1,287,322
Prior year fund balance	-	-	-	-
Compensation appropriation	-	-	-	-
Investment income	-	-	5,307	5,307
<i>Total other financing sources (uses)</i>	4,892,900	4,892,900	6,185,529	1,292,629
<i>Change in net position</i>	\$ -	\$ -	\$ 5,730,258	\$ 5,730,258
Change in net position (budgetary basis)			\$ 5,730,258	
GAAP Adjustment for capital outlay			455,271	
Loss on disposal of capital assets			(20,441)	
Internal transfers of capital assets			(455,271)	
Change in net position GAAP basis			\$ 5,709,817	

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

STATE OF NEW MEXICO
 New Mexico Department of Information Technology
 Statement of Revenues, Expenses and
 Changes in Net Position-Budget (Budget Basis) and Actual
 SHARE ERF Enterprise Fund (96870)
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (Budget) Basis	Variances Favorable
	Original	Final		(Unfavorable) Final to Actual
<i>Revenues:</i>				
User fees	\$ -	\$ -	\$ -	\$ -
Other revenues	-	-	-	-
<i>Total revenues</i>	-	-	-	-
<i>Expenses:</i>				
Current:				
Personnel services and employee benefits			-	-
Contractual services	4,009,900	12,399,300	9,450,026	2,949,274
Other costs	-	-	-	-
<i>Total expenses</i>	4,009,900	12,399,300	9,450,026	2,949,275
<i>Excess (deficiency) of revenues over expenses</i>	(4,009,900)	(12,399,300)	(9,450,026)	2,949,275
<i>Other financing sources (uses)</i>				
Internal transfers	4,009,900	3,409,900	1,063,035	(2,346,865)
State general fund appropriation	-	-	-	-
Compensation appropriation	-	-	-	-
Investment income	-	-	63,040	63,040
<i>Total other financing sources (uses)</i>	4,009,900	3,409,900	1,126,075	(2,283,825)
<i>Change in net position</i>	\$ -	\$ (8,989,400)	\$ (8,323,951)	\$ 665,449
Change in net position (budgetary basis)			\$ (8,323,951)	
GAAP Adjustment for capital outlay			9,450,027	
Depreciation expense			-	
Internal transfers of capital assets			(9,450,027)	
Change in net position GAAP basis			\$ (8,323,951)	

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

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SUPPORTING SCHEDULES

STATE OF NEW MEXICO
 New Mexico Department of Information Technology
 Schedule of Special Appropriations and Severance Tax Bond Proceeds
 Year Ended June 30, 2017

Description	Authority	Appropriation Period	SHARE Fund
To plan, design, acquire, purchase and implement infrastructure for public safety communications statewide for improved communication equipment affecting all emergency responders.	Laws 2014, Chap. 66, Sec. 20, Item 2	2015-2018	89200
To plan, design, construct, and equip infrastructure for public safety radio communications for emergency responders statewide.	Laws 2015, SS, Chapter 3, Sec. 26, Item 1	2016-2019	89200
To initiate and plan the development of the one-stop business portal.	Laws 2015, Chapter 101, Sec. 7, Item 8	2016-2017	20320
For a statewide broadband study and plan.	Laws 2016, Chapter 11, Sec. 5, Item 17	2016-2017	20370
To plan, design, construct and equip infrastructure for public safety radio communications for emergency responders statewide.	Laws 2015, SS, Chapter 3, Sec. 71	2016-2019	20340
To stabilize and upgrade the statewide human resources, accounting and management reporting system to current levels of hardware and software.	Laws 2015, Chap. 101, Sec.7, Item 7	2015-2017	20340
To continue the development of the onestop business portal.	Laws 2016, Chap. 11, Sec.7, Item 10	2016-2018	20340
To cover Projected Shortfall	Laws 2017, Chap. 135, Sec.6, Item 4	2017	20340

See independent auditors' report.

Total Appropriations or Bond Proceeds	Current Year Expenditures	Previous Year's Expenditures	Unexpended Portion	Unexpended and Reverted	Restricted Fund Balance
\$ 5,000,000	\$ 268,843	\$ 4,672,015	\$ 59,142	\$ -	\$ -
\$ 3,200,000	\$ 862,620	\$ 2,228,600	\$ 108,780	\$ -	\$ -
\$ 400,000	\$ 237,145	\$ 162,841	\$ 15	\$ 15	\$ -
\$ 400,000	\$ 399,196	\$ -	\$ 804	\$ 804	\$ -
\$ 1,000,000	\$ 982,454	\$ -	\$ 17,546	\$ -	\$ 17,546
\$ 5,000,000	\$ 3,836,800	\$ 1,163,200	\$ -	\$ -	\$ -
\$ 600,000	\$ 507,548	\$ -	\$ 92,452	\$ -	\$ 92,452
\$ 600,000	\$ 599,975	\$ -	\$ 25	\$ -	\$ 25

See independent auditors' report.

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COMPLIANCE SECTION

**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***

INDEPENDENT AUDITORS' REPORT

Mr. Darryl Ackley
State of New Mexico
Department of Information Technology
Timothy Keller
New Mexico State Auditor

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the budgetary comparisons for the General Fund and major special revenue funds of the New Mexico Department of Information Technology (the "Department") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and related budgetary comparisons presented as supplementary information, and have issued our report thereon dated October 20, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency as item FS 2017-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item FS 2017-001.

The Department's Responses to the Findings

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

Purpose of this Report

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

A handwritten signature in blue ink that reads "Cordova CPAs LLC". The signature is written in a cursive, flowing style.

Cordova CPAs LLC
Albuquerque, New Mexico
October 20, 2017

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STATE OF NEW MEXICO
New Mexico Department of Information Technology
Schedule of Findings and Responses
June 30, 2017

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors’ report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | None Noted |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Noncompliance material to the financial statements noted? | Yes |

SECTION II – PRIOR YEAR AUDIT FINDINGS

None noted

SECTION III – FINANCIAL STATEMENT FINDINGS

FS 2017-001 Procurement Noncompliance (Material Noncompliance)

Condition: During our review of procurement transactions by the Department during fiscal year 2017, we noted that the department continued to purchase services from a vendor from January 1, 2017 through February 24, 2017 without having a proper amended price agreement in place once the initial contract ended on December 31, 2016. The amount of the procurement violation totaled \$106,933. Also, due to there not being a proper amended price agreement in place, there was also a statutory budgetary violation because funds were not properly encumbered under a valid amended contract.

Criteria: Per NMSA 13-1-30 “Except as otherwise provided in the Procurement Code [13-1-28 NMSA 1978] that code shall apply to every expenditure by state agencies and local public bodies for the procurement of items of tangible personal property, services and construction ... When a procurement involves the expenditure of federal funds, the procurement shall be conducted in accordance with mandatory applicable federal law and regulations.”. Also, DFA’s Model Accounting Practices FIN 4.4 “Encumbrances” (“MAPs” June 30, 2016).

Effect: The Agency potentially did not get the lowest price because the purchases did not have a proper amended price agreement. Noncompliance with state procurement requirements.

Cause: Prior to December 31, 2016, the original vendor cancelled the GSA contract nationwide and the cancelation was out of the Departments control.

Auditors’ Recommendation: We recommend the Department ensure that all procurement goes through the proper procurement method, and if negotiations of contracts for are going to be delayed, that no services are provided to the Department until a proper method of procurement is achieved.

Management’s Response: Management agrees that funds were not properly encumbered under a valid contract for this vendor. The “50% Rule” was in effect for fiscal year 2017. The 50% Rule is applicable to expenditures of any state agency for the first 6-month period of each odd numbered fiscal year shall be limited to one-half of the appropriation or approved budget, whichever is less, for that fiscal year. Therefore, DOIT was allowed to encumber and pay only the first half of the year to the vendor which ended on December 31, 2016. The second half became due on January 1st, 2017. The vendor cancelled the GSA contract nationwide, and there was no viable contract on January 1. General Services Department (GSD), State Purchasing Division (SPD) did not sign a new statewide price agreement with the vendor until February 25th. GSD-SPD was aware of the contract lapse and DOIT worked with GSD to move a viable contract vehicle to signature prior to the contract lapsing. The manufacturer controls pricing and published pricing, including those on statewide price agreements.

STATE OF NEW MEXICO
 New Mexico Department of Information Technology
 Schedule of Findings and Responses
 June 30, 2017

FS 2017-002 Excessive Overtime Compensation (Significant Deficiency)

Condition: During our review of payroll expenditures, we noted there was excessive overtime compensation for several employees of the Department under the category of “stand-by” as follows:

Overtime Amount	Position	Total Yearly Wages	Overtime as % of Yearly Wages
18,837.14	Las Cruces Radio	84,972.90	22%
26,738.49	System Services	106,559.06	25%
29,225.21	Network Services	116,164.48	25%
30,010.95	Data Center Ops	115,759.12	26%
30,514.54	Network Services	112,216.02	27%
23,895.26	Mainframe Support	87,424.86	27%
29,432.46	Data Cntr Ops	106,965.11	28%
33,163.03	Data Cntr Ops	118,824.91	28%
32,213.20	Mainframe Support	113,967.96	28%
34,047.26	Mainframe	119,492.84	28%
32,395.12	Mainframe Support	109,059.96	30%
42,037.11	Mainframe Support	120,035.94	35%
32,934.88	Mainframe Support	90,609.79	36%

Criteria: According to the U.S. Government Accountability Office issued by the Comptroller General of the United States, paragraph 4.04 of the Yellow Book (Government Auditing Standards), paragraph 4.07 states that "Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests.....".

Effect: The Agency is spending excessive amounts of monies to pay for employees to be “stand-by”, and thus being charged as overtime.

Cause: Employees are able to be compensated for “stand-by” overtime status without the Department capping the amounts per employee or reevaluating how to conduct operations in a more prudent and economical manner without having excessive overtime charged to the Department.

Auditors’ Recommendation: We recommend the Department reevaluate the needs of their operations and make adjustments to resources to prevent excess “stand-by” overtime.

Management’s Response: Management agrees that the overtime policy and the related controls need to be revised, and is in the process of analyzing stand-by and call back time for fiscal year 2017. Management made significant improvements in 2017 to control our budget and was successful in resolving the prior year finding of unrecorded liabilities. Controlling the amount of stand-by and call back time is the next step in effectively managing our budget. The Department will issue a revised policy by March 1, 2018.

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Schedule of Findings and Responses
June 30, 2017

SECTION IV – SECTION 12-6-5 NMSA 1978 FINDINGS

FS 2016-001 Unrecorded Accounts Payable (Significant Deficiency)- Resolved

STATE OF NEW MEXICO
New Mexico Department of Information Technology
Other Disclosures
June 30, 2017

OTHER DISCLOSURES

Exit Conference

An exit conference was held on October 25, 2017. The following individuals were in attendance.

Representing New Mexico Department of Information Technology

Darryl Ackley	Cabinet Secretary and Chief Information Officer
Donna Sandoval	Chief Financial Officer and ASD Director
Douglas Taylor	GL Bureau Chief
Maria Sanchez	General Counsel
Kevin Romero	Budget Director

Representing Cordova CPAs LLC

Robert Gonzales, CPA	Engagement Principal
Robert Cordova, CPA	Principal

Auditor Prepared Financial Statements

Cordova CPAs LLC prepared the GAAP-basis financial statements and footnotes of the Department from the original books and records provide to them by the management of the Department. The responsibility for the financial statements remains with the Department.