
State of New Mexico
Office of the Secretary of State

Financial Statements
and
Independent Auditor's Report
June 30, 2016



CPAs | Business & Financial Advisors

State of New Mexico
Office of the Secretary of State

Table of Contents

	<u>Page</u>
Table of Contents	i-ii
Official Roster	iii
Independent Auditor’s Report	1-3
Management’s Discussion and Analysis	4-10
Government-Wide Financial Statements	
Statement of Net Position	11
Statement of Activities	12
Governmental Funds Financial Statements	
Balance Sheet — Governmental Funds	13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual—General Fund	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual—Public Election Fund	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual—STB Capital Outlay Fund	19
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual—Convenience Fee Fund	20
Schedule of Fiduciary Assets and Liabilities	21

State of New Mexico
Office of the Secretary of State

Table of Contents — continued

	<u>Page</u>
Notes to the Financial Statements	22-35
Required Supplementary Information	
Schedule of Revenues and Expenditures – Budget and Actual— General Fund (18000) by Appropriation	36-37
Schedule of Revenues and Expenditures – Budget and Actual— Public Election Fund (81200) by Appropriation	38
Notes to the Required Supplementary Information	39
Other Supplementary Information	
Schedule of Changes in Fiduciary Assets and Liabilities – Agency Funds	40
Schedule of Operating Transfers	41
Schedule of Vendor Information	42
Compliance Section	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43-44
Schedule of Findings and Responses	45
Corrective Action Plan	46
Summary Schedule of Prior Audit Findings	47
Other Disclosures	48

State of New Mexico
Office of the Secretary of State
Official Roster
June 30, 2016

<u>Name</u>	<u>Title</u>
Brad Winter	Secretary of State
Ken Ortiz	Chief of Staff
Veronica Albin	Chief Financial Officer

Independent Auditor's Report

Mr. Brad Winter, Secretary of State
State of New Mexico, Office of the Secretary of State
and
Mr. Timothy Keller, New Mexico State Auditor

Report on the Financial Statement

We have audited the accompanying financial statements of the governmental activities, each major fund, fiduciary funds, and the budgetary comparisons for the general fund and major special revenue funds of the State of New Mexico, Office of the Secretary of State (Office), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

Management's Responsibility

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 responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the fiduciary funds of the Office as of June 30, 2016, and the respective changes in financial position 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Office and do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparisons by appropriation 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 Office's financial statements and the budgetary comparisons. The other schedules required by Section 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The schedule of vendor information 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 November 29, 2016, on our consideration of the Office'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 *Governmental Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

REDW LLC

Albuquerque, New Mexico
November 29, 2016

State of New Mexico
Office of the Secretary of State
Management's Discussion and Analysis
For the Year Ended June 30, 2016

As financial management of the State of New Mexico, Office of the Secretary of State (Office), we offer readers of the Office's financial statements this narrative overview and analysis of the financial activities of the Office for the year ended June 30, 2016. Please read it in conjunction with the financial statements and notes to the financial statements.

The mission of the Office is to administer elections and government ethics in accordance with state and federal law and to maintain and provide access to the laws, official acts, and other instruments vital to the efficient operation of state government. It is also the mission of the Office to file and maintain records vital to the interests of commerce and industry.

Financial Highlights

- ◆ Total assets of the Office exceeded liabilities at June 30, 2016, by \$10.1 million (net position). The net position includes \$7.7 million net investment in capital assets and restricted net position of \$63,791.
- ◆ Total expenses increased from \$12.7 million in 2015 to \$13 million in 2016. The increase is primarily due to an increase of \$1.5 million in depreciation expense in 2016 compared to 2015. This was caused by significant purchases of voting machines at the end of 2015, which incurred a full year of depreciation expense in 2016.

Overview of the Financial Statements

This discussion and analysis serves as the introduction to the Office's financial statements which are comprised of six components: 1) management's discussion and analysis (this section), 2) government-wide financial statements, 3) fund financial statements, 4) notes to the financial statements, 5) required supplementary information, and 6) other supplementary information.

The government-wide financial statements report information about the Office that provide both long-term and short-term information. The fund financial statements focus on the individual funds of the Office reporting operations in more detail than the government-wide financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Office's finances in a manner similar to a private-sector business in that all activities are consolidated and reported in a single column. The government-wide financial statements report the economic resources of the Office, which combines the Office's current financial resources with capital assets and long-term obligations.

State of New Mexico
Office of the Secretary of State
Management's Discussion and Analysis
For the Year Ended June 30, 2016

The statement of net position presents information on all of the Office's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Office is improving or deteriorating.

The statement of activities presents information showing how the Office's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The focus of the statement of activities is on both the gross and net cost of various activities. This is intended to summarize information and simplify the user's analysis of the cost of various governmental services provided by the Office.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year (i.e. current financial resources). Such information may be useful in evaluating a government's near-term financing requirements. The Office presents the following major governmental funds:

- ◆ General Fund (SHARE 18000)—The general fund is the general operating fund of the Office. It is used to account for all financial resources except those required to be accounted for in another fund.
- ◆ Public Elections Fund (SHARE 81200)—The public election fund is funded through state appropriations and was established by legislation at 1-19A-10 NMSA for the purposes of financing the campaigns of certified candidates for covered offices, paying administrative and enforcement costs of the Voter Action Act, and carrying out all other specified provisions of the Voter Action Act.
- ◆ Severance Tax Bond (STB) Capital Outlay (SHARE 89200)—The severance tax bond capital outlay fund provides for information technology upgrades, including computers, servers, and disaster recovery upgrades.
- ◆ Help America Vote Act Fund (HAVA) (SHARE 90300)—The HAVA fund is used to account for the federal funds received related to the Help America Vote Act.

State of New Mexico
Office of the Secretary of State
Management's Discussion and Analysis
For the Year Ended June 30, 2016

- ◆ Convenience Fee Fund (SHARE 43170) - The Convenience fee fund is used to account for credit card convenience fees for the purpose of defraying the cost of the service to process credit card payments.
- ◆ Arbitration Fund (SHARE 02500)—Chapter 112 Laws 1997 - An arbitration hearing shall be conducted by a single arbitrator selected within ten days by the person against whom the penalty has been imposed from a list of five arbitrators provided by the Secretary of State. Neither the Secretary of State nor a person subject to the Lobbyist Regulation Act, Campaign Reporting Act, or Financial Disclosure Act may serve as an arbitrator. Arbitrators shall be considered to be independent contractors, not public officers or employees, and shall not be paid per diem or mileage. This is a non-reverting fund and is a nonbudgeted fund for fiscal year 2016.

The Office also presents the following funds that are fiduciary in nature:

- ◆ Notary Fund (SHARE 79900)—For Notary Public and other fees, an agency fund is used to report assets held for others that are not available to support the Office's activities. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The fund is used to collect various fees under 8-4-4 NMSA 1978 that are remitted to the State General Fund.
- ◆ Corporation Fees Fund (12210)—Established by Chapter 53, NMSA 1978, this fund is used to account for the collection of fees by the Corporations Bureau that are remitted to the State General Fund.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Office's financing decisions. The Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Financial Analysis of the Office as a Whole

The Office's net position decreased by \$787,817 during 2016. Net position invested in capital assets decreased by \$2.6 million during 2016, which resulted from depreciation expense in 2016. Table 1 summarizes the Office's net position:

State of New Mexico
Office of the Secretary of State
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Table 1
Condensed Statement of Net Position
June 30,

	2016	2015 (as restated)	Change
Assets			
Current assets	\$ 3,497,949	\$ 1,401,657	\$ 2,096,292
Capital assets, net	<u>7,713,966</u>	<u>10,278,411</u>	<u>(2,564,445)</u>
Total assets	<u>11,211,915</u>	<u>11,680,068</u>	<u>(468,153)</u>
Liabilities			
Current liabilities	1,065,258	743,401	321,857
Long-term liabilities	<u>69,475</u>	<u>71,668</u>	<u>(2,193)</u>
Total liabilities	<u>1,134,733</u>	<u>815,069</u>	<u>319,664</u>
Net position			
Net investment in capital assets	7,713,966	10,278,411	(2,564,445)
Restricted	63,791	527,617	(463,826)
Unrestricted (deficit)	<u>2,299,425</u>	<u>58,971</u>	<u>2,240,454</u>
Total net position	<u>\$ 10,077,182</u>	<u>\$ 10,864,999</u>	<u>\$ (787,817)</u>

The Office's expenses increased \$281,108 in 2016. The increase is primarily due to an increase of \$1.5 million in depreciation expense from 2015, offset by decrease in administrative and elections program expenses. In the prior year, the Office purchased \$6 million in voting machines which incurred a full year of depreciation in fiscal year 2016. General revenues decreased by approximately \$3.5 million in 2016, primarily due to less capital outlay funding received in 2016 compared to 2015. Table 2 summarizes the Office's change in net position.

State of New Mexico
Office of the Secretary of State
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Table 2
Condensed Statement of Activities
For the Years Ended June 30,

	2016	2015 (as restated)	Change
Revenues			
Program revenue	\$ 69,585	\$ 38,142	\$ 31,443
General revenue, net of transfers	<u>12,138,782</u>	<u>15,698,943</u>	<u>(3,560,161)</u>
Total revenues	<u>12,208,367</u>	<u>15,737,085</u>	<u>(3,528,718)</u>
Expenses			
Program expenses	<u>12,996,184</u>	<u>12,715,076</u>	<u>281,108</u>
Total expenses	<u>12,996,184</u>	<u>12,715,076</u>	<u>281,108</u>
Change in net position	(787,817)	3,022,009	(3,809,826)
Net position, beginning of year, as restated	<u>10,864,999</u>	<u>7,842,990</u>	<u>3,022,009</u>
Net position, end of year	<u>\$ 10,077,182</u>	<u>\$ 10,864,999</u>	<u>\$ (787,817)</u>

Financial Analysis of the Office's Funds

The focus of the Office's funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Office's financing requirements.

The Office receives its revenues from general fund appropriations and public election fund appropriations.

At June 30, 2016, the Office's total governmental funds reported an ending fund balance of approximately \$2.5 million, an increase of \$1.8 million from the prior year. The general fund balance increased by \$2.2 million during 2016, primarily because of additional appropriations received in anticipation of the 2016 General Election.

General Fund Budgetary Analysis

- ◆ The general fund revenue and expenditure budget decreased by \$43,300 from \$10,913,965 to a final budget of \$10,870,665. The reduction resulted from Laws of 2016, Chapter 11, Section 10-A.

State of New Mexico
Office of the Secretary of State
Management's Discussion and Analysis
For the Year Ended June 30, 2016

- ◆ Actual general fund revenues totaled \$10,578,500 for the year ended June 30, 2016.
- ◆ Actual general fund expenditures totaled \$8,304,891 for the year ended June 30, 2016.

Capital Assets and Debt Administration

Capital Assets—As of June 30, 2016, the Office had \$7.7 million, net of accumulated depreciation, invested primarily in voting systems under the care and custody of the New Mexico Counties. The Office also had computer equipment, software, and furniture at year-end.

Long-Term Liabilities—The Office's compensated absences balance decreased from \$143,337 to \$138,950 during the year. Half of the balance, or \$69,475, is reported as due within one year.

Economic Factors and Next Year's Budget

The fiscal year 2016 general fund budget appropriation was \$7,230,400. A legislative budget reduction was imposed on all state agencies, which reduced the general fund appropriation by \$43,300. Additionally, the Office received a special appropriation of \$541,400 and a supplemental appropriation of \$500,000 for election expenses.

The Office was appropriated \$1,250,000 from the Public Election fund. In 2016, the Public Election fund did not have sufficient balance to disburse to candidates who qualified for public financing under the Voter Action Act, so the Office received an emergency grant from the Board of Finance in the amount of \$314,739 to meet this obligation.

As has been the case in prior years, the Office's ability to project its expenses with accuracy is hindered because of its statutory obligation to reimburse or provide New Mexico Counties with election related items and services without spending restrictions imposed on the Counties.

The use of Voting Convenience Centers (VCCs) and related use of ballot on demand systems has increased and is anticipated to increase in future years. While VCCs generally provide a cost savings to the Counties, it increases the costs to the Office. A renewed contract for ballot on demand systems increased the lease price which is expected to have a significant impact on the Office's budget. The Office negotiated the price down for the 2016 Primary Election in fiscal year 2016 and the 2016 General Election in fiscal year 2017 in light of the budget constraints.

The Office has met its statutory obligation to provide online voter registration, which went live January 1, 2016. The Office continues development of the Integrated Reporting and Integrity System (IRIS), which will replace the Voter Registration and Election Management system (VREMS), costs that impact the fiscal year 2016 and 2017 budgets, but which will potentially save costs on maintenance fees in future years.

State of New Mexico
Office of the Secretary of State
Management's Discussion and Analysis
For the Year Ended June 30, 2016

In October 2015, Secretary of State Dianna Duran resigned her position. Brad Winter was appointed by Governor Martinez on December 15, 2015, to serve until the 2016 General Election, in which a new Secretary of State was elected. Through the course of fiscal year 2016, five exempt positions remained vacant, including the statutorily created Bureau of Elections Director; the Office's CIO has served in acting capacity. The Deputy Secretary retired in May 2016 and General Counsel resigned in July 2016. The remaining administrative leadership remains unchanged. Overall, the Office experienced a higher than normal vacancy rate in fiscal year 2016, resulting in significant salary savings which were applied to the fiscal year 2017 budget through a supplemental appropriation.

As a result of upgraded IT and voting equipment technology in the Office, we expect new recurring costs for support and maintenance services that were previously covered in initial purchase and warranty coverage. These increases were not initially budgeted in fiscal year 2016, and include database programming, license costs for voting tabulating systems, and election support and training costs. As a result, supplemental funding was awarded.

An online business filing system is being designed and implemented in fiscal year 2016 to further streamline the business services provided by the Office to the business community. A statutory change was made in the 2015 legislative session that allows the Office to collect a convenience fee on credit card transactions and use that fee to pay for costs related to providing the service. A new fund was created for this purpose.

The fiscal year 2017 budget was reduced by the Legislature in a September 2016 special session. The Office's reduction is \$421,020. With reduced anticipated revenues to the State as a whole, the Office of the Secretary of State will continue to operate as efficiently as possible within its appropriations, and accommodate the demands placed on its budget to meet its obligations in overseeing and providing equipment and supplies for statewide elections, and providing services to the business community.

Contacting the Office's Financial Management

This financial report is designed to provide a general overview of the Office's finances and demonstrate accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Veronica Albin, Office of the Secretary of State, 325 Don Gaspar, Suite 300, Santa Fe, New Mexico 87501.

Government-Wide
Financial Statements

State of New Mexico
Office of the Secretary of State
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>
Assets	
Investment in State General Fund Investment Pool	\$ 3,495,366
Accounts receivable	2,583
Capital assets, net	<u>7,713,966</u>
Total assets	<u>11,211,915</u>
 Liabilities	
Accounts payable	707,171
Accrued payroll	100,441
Other liabilities	75
Due to other state agencies	117,842
Due to the State General Fund	63,794
Due to other funds	6,460
Compensated absences – current	69,475
Compensated absences – noncurrent	<u>69,475</u>
Total liabilities	<u>1,134,733</u>
 Net Position	
Net investment in capital assets	7,713,966
Restricted	63,791
Unrestricted	<u>2,299,425</u>
Total net position	<u>\$ 10,077,182</u>

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

State of New Mexico
Office of the Secretary of State
Statement of Activities
For the Year Ended June 30, 2016

	<u>Governmental Activities</u>
Expenses	
Executive	
Administrative and operations program	\$ 5,240,993
Elections program	5,175,026
Depreciation	<u>2,580,165</u>
Total expenses	<u>12,996,184</u>
 Program Revenues	
Miscellaneous income	<u>69,585</u>
Total program revenues	<u>69,585</u>
Net program expenses	<u>(12,926,599)</u>
 General Revenues (Losses) and Transfers	
General fund appropriation	9,178,500
Other financing sources	2,996,897
Interest income	2,405
Reversion to the State General Fund	<u>(39,020)</u>
Total general revenues (losses) and transfers	<u>12,138,782</u>
Change in net position	<u>(787,817)</u>
Net position, beginning of year	12,016,921
Restatement (Note 15)	<u>(1,151,922)</u>
Net position, beginning of year, as restated	<u>10,864,999</u>
Net position, end of year	<u>\$ 10,077,182</u>

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

**Governmental Funds
Financial Statements**

State of New Mexico
Office of the Secretary of State
Balance Sheet—Governmental Funds
June 30, 2016

	General Fund (18000)	Public Election Fund (81200)	Convenience Fee Fund (43170)
Assets			
Investment in State General Fund Investment Pool	\$ 3,187,343	\$ 240,052	\$ 37,092
Accounts receivable	2,583	-	-
Total assets	\$ 3,189,926	\$ 240,052	\$ 37,092
 Liabilities and Fund Balance			
Current liabilities			
Accounts payable	\$ 587,266	\$ 119,905	\$ -
Accrued payroll	100,431	10	-
Due to other state agencies	-	117,842	-
Due to State General Fund	63,779	-	-
Due to other funds	-	-	6,460
Other liabilities	75	-	-
Total liabilities	751,551	237,757	6,460
Fund balance			
Restricted	-	2,295	30,632
Committed	2,438,375	-	-
Total fund balance	2,438,375	2,295	30,632
Total liabilities and fund balance	\$ 3,189,926	\$ 240,052	\$ 37,092

STB Capital Outlay Fund (89200)	HAVA Fund (90300)	Arbitration Fund (02500)	Total Governmental Funds
\$ 87	\$ 310	\$ 30,482	\$ 3,495,366
-	-	-	2,583
<u>\$ 87</u>	<u>\$ 310</u>	<u>\$ 30,482</u>	<u>\$ 3,497,949</u>
\$ -	\$ -	\$ -	\$ 707,171
-	-	-	100,441
-	-	-	117,842
-	15	-	63,794
-	-	-	6,460
-	-	-	75
<u>-</u>	<u>15</u>	<u>-</u>	<u>995,783</u>
87	295	30,482	63,791
-	-	-	2,438,375
<u>87</u>	<u>295</u>	<u>30,482</u>	<u>2,502,166</u>
<u>\$ 87</u>	<u>\$ 310</u>	<u>\$ 30,482</u>	<u>\$ 3,497,949</u>

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

State of New Mexico
Office of the Secretary of State
Reconciliation of the Balance Sheet—Governmental Funds to the
Statement of Net Position
June 30, 2016

Fund balance of governmental funds	\$ 2,502,166
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of the following:	
Voting systems under the care and custody of the Counties	13,196,277
Computer equipment, software and furniture	2,180,361
Accumulated depreciation	(7,662,672)
Some liabilities are not due and payable in the current period, and therefore are not reported in the funds. These liabilities consist of compensated absences.	(138,950)
Net position of governmental activities	<u>\$ 10,077,182</u>

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

State of New Mexico
Office of the Secretary of State
Statement of Revenues, Expenditures and
Changes in Fund Balance—Governmental Funds
For the Year Ended June 30, 2016

	General Fund (18000)	Public Election Fund (81200)	Convenience Fee Fund (43170)
Revenues			
Interest income	\$ -	\$ 2,336	\$ -
Miscellaneous income	-	37,388	30,632
Total revenues	<u>-</u>	<u>39,724</u>	<u>30,632</u>
Expenditures			
Current			
Personal services and benefits	3,696,144	-	-
Contractual services	1,856,873	-	-
Other costs	2,751,874	2,131,235	-
Total expenditures	<u>8,304,891</u>	<u>2,131,235</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(8,304,891)</u>	<u>(2,091,511)</u>	<u>30,632</u>
Other Financing Sources (Uses)			
General fund appropriations	9,178,500	-	-
Other financing sources	1,400,000	1,596,897	-
Reversion to the State General Fund	(39,020)	-	-
Total other financing sources (uses)	<u>10,539,480</u>	<u>1,596,897</u>	<u>-</u>
Net change in fund balances	2,234,589	(494,614)	30,632
Fund balance (deficit), beginning of year	<u>203,786</u>	<u>496,909</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 2,438,375</u></u>	<u><u>\$ 2,295</u></u>	<u><u>\$ 30,632</u></u>

STB Capital Outlay Fund (89200)	HAVA Fund (90300)	Arbitration Fund (02500)	Total Governmental Funds
\$ -	\$ -	\$ 69	\$ 2,405
<u>1,565</u>	<u>-</u>	<u>-</u>	<u>69,585</u>
<u>1,565</u>	<u>-</u>	<u>69</u>	<u>71,990</u>
-	-	-	3,696,144
-	-	-	1,856,873
-	-	-	4,883,109
<u>-</u>	<u>-</u>	<u>-</u>	<u>10,436,126</u>
<u>1,565</u>	<u>-</u>	<u>69</u>	<u>(10,364,136)</u>
-	-	-	9,178,500
-	-	-	2,996,897
-	-	-	(39,020)
<u>-</u>	<u>-</u>	<u>-</u>	<u>12,136,377</u>
1,565	-	69	1,772,241
<u>(1,478)</u>	<u>295</u>	<u>30,413</u>	<u>729,925</u>
<u>\$ 87</u>	<u>\$ 295</u>	<u>\$ 30,482</u>	<u>\$ 2,502,166</u>

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

State of New Mexico
Office of the Secretary of State
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, 2016

Net change in fund balances – total governmental funds \$ 1,772,241

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

Certain outlays are reported as expenditures in governmental funds. However, in the statement of activities, these costs are expensed as they are consumed or are allocated over their estimated useful lives. In the current period these amounts are:

Capital outlay	\$ 15,720	
Depreciation expense	<u>(2,580,165)</u>	
		(2,564,445)

Expenses recognized in the statement of activities, not reported in governmental funds:

Increase in compensated absences		<u>4,387</u>
Change in net position of governmental activities		<u>\$ (787,817)</u>

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

State of New Mexico
Office of the Secretary of State
Statement of Revenues, Expenditures and Changes
in Fund Balance—Budget to Actual—General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	From Final Budget Positive (Negative)
Revenues				
General fund appropriations	\$ 10,913,965	\$ 10,870,665	\$ 10,578,500	\$ (292,165)
Total revenues	<u>10,913,965</u>	<u>10,870,665</u>	<u>10,578,500</u>	<u>(292,165)</u>
Expenditures				
Personal services and benefits	4,160,000	3,945,000	3,696,144	248,856
Contractual services	3,116,965	3,112,214	1,856,873	1,255,341
Other	3,637,000	3,813,451	2,751,874	1,061,577
Total expenditures	<u>10,913,965</u>	<u>10,870,665</u>	<u>8,304,891</u>	<u>2,565,774</u>
Excess (deficiency) of revenues over expenditures	-	-	2,273,609	(2,273,609)
Less reversion to State General Fund	-	-	(39,020)	39,020
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,234,589</u>	<u>\$ (2,234,589)</u>

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

State of New Mexico
Office of the Secretary of State
Statement of Revenues, Expenditures and Changes
in Fund Balance—Budget to Actual—Public Election Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General fund appropriations	\$ 1,564,739	\$ 2,250,428	\$ 1,596,897	\$ (653,531)
Interest income	-	-	2,336	2,336
Miscellaneous income	-	-	37,388	37,388
Total revenues	<u>1,564,739</u>	<u>2,250,428</u>	<u>1,636,621</u>	<u>(613,807)</u>
Expenditures				
Other	<u>1,564,739</u>	<u>2,250,428</u>	<u>2,131,235</u>	<u>119,193</u>
Total expenditures	<u>1,564,739</u>	<u>2,250,428</u>	<u>2,131,235</u>	<u>119,193</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(494,614)</u>	<u>(733,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (494,614)</u>	<u>\$ (733,000)</u>

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

State of New Mexico
Office of the Secretary of State
Statement of Revenues, Expenditures and Changes
in Fund Balance—Budget and Actual—
STB Capital Outlay Fund
For the Year Ended June 30, 2016

	Budget Original	Budget Final	Actual Amounts	Variance with Final Budget – Favorable (Unfavorable)
Revenues				
Miscellaneous income	\$ -	\$ -	\$ 1,565	\$ 1,565
Total revenues	<u>-</u>	<u>-</u>	<u>1,565</u>	<u>1,565</u>
Expenditures				
Other costs	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>1,565</u>	<u>1,565</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>1,565</u>	<u>\$ 1,565</u>

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

State of New Mexico
Office of the Secretary of State
Statement of Revenues, Expenditures and Changes
in Fund Balance—Budget and Actual—
Convenience Fee Fund
For the Year Ended June 30, 2016

	Budget Original	Budget Final	Actual Amounts	Variance with Final Budget – Favorable (Unfavorable)
Revenues				
Miscellaneous income	\$ -	\$ -	\$ 30,632	\$ 30,632
Total revenues	<u>-</u>	<u>-</u>	<u>30,632</u>	<u>30,632</u>
Expenditures				
Other costs	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	-	-	30,632	30,632
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,632</u>	<u>\$ 30,632</u>

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

State of New Mexico
Office of the Secretary of State
Schedule of Fiduciary Assets and Liabilities
June 30, 2016

	Corporation Fees Fund (12210)	Notary Fund (79900)
Assets		
Investment in SGFIP	\$ -	\$ 1,795
Accounts receivable	-	1,864
Due from other funds	6,460	-
Total Assets	\$ 6,460	\$ 3,659
 Liabilities		
Due to the State General Fund	\$ 6,460	\$ 3,659
Total liabilities	\$ 6,460	\$ 3,659

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

State of New Mexico
Office of the Secretary of State
Notes to the Financial Statements
June 30, 2016

1) Reporting Entity

The State of New Mexico, Office of the Secretary of State (the “Office”), in accordance with the constitution and laws of the State of New Mexico, shall supervise, administer and furnish supplies for elections; publish the statistical Blue Book; act as depository for legislative records; supervise the publication of Session Laws; record and file all public official bonds, oaths and executive names and trademarks; commission notaries public; serve as statutory agent for services of process for non-resident motorists and foreign corporations; publish the Election Code and State Constitution with amendments; file musical copyrights; handle trading stamp registrations; administer Uniform Commercial Code, etc.; file instruments for Public Utilities and Railroads; furnish and file forms relating to the Conflict of Interest Act; and administer the Lobby Registration Act.

The Office is a department of the primary government of the State of New Mexico. These financial statements present the financial position and results of operation of only those Statewide Human Resources Accounting and Management Reporting System (SHARE) funds for which the NM Secretary of State (the “Secretary”) has oversight responsibility.

The Secretary is elected by the public and has decision making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Criteria for determining the entity for financial reporting purposes are whether the governing body exercises oversight responsibility. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The financial statements include all the funds and account groups of the Office over which the Secretary exercises operational control. The Office has no blended or discretely presented component units.

2) Summary of Significant Accounting Policies

Accounting Standards

The financial statements of the Office conform with generally accepted accounting principles (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

State of New Mexico
Office of the Secretary of State
Notes to the Financial Statements
June 30, 2016

Government-Wide Financial Statements

The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. The statement of net position and the statement of activities present information about the Office's primary government as a whole, without displaying individual funds or fund types. Generally, these statements distinguish between activities that are governmental and those that are considered business-type activities. The Office has no business-type activities; therefore these statements only reflect governmental activities. Government-wide financial statements exclude information about fiduciary funds. Governmental activities are financed primarily through state appropriations.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Office's governmental activities. Direct expenses are those that are clearly identifiable to a particular function. Revenues that are not classified as program revenues, including all appropriations, other financing sources, and interest income, are presented as general revenues.

Fund Financial Statements

The governmental fund financial statements are presented on the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end in order to pay current liabilities. Expenditures are recorded when the related fund liability is incurred.

This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Office's actual experience conforms to the budget or fiscal plan. Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented on the page following each fund financial statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the government-wide presentation.

The Office's fiduciary funds (agency funds) are presented in the fund financial statements. Agency funds are presented on the accrual basis of accounting. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated in the government-wide financial statements.

State of New Mexico
Office of the Secretary of State
Notes to the Financial Statements
June 30, 2016

General Fund

The *general fund (SHARE 18000)* is the general operating fund of the Office. It is used to account for all financial resources except those required to be accounted for in another fund. This is a non-reverting fund in 2016.

Under House Bill 46, the Secretary of State, pursuant to Article 11, Section 19 of the constitution of New Mexico, assumed responsibility for chartering corporations as provided by law, including the performance of the functions of the former corporation's bureau of the Public Regulations Commission. All personnel and all money, appropriations, records, furniture, equipment, supplies and other property belonging to or used by the corporation bureau of the Public Regulation Commission was transferred to the Secretary of State. Unexpended amounts at year-end are committed for future program expenditures in the fund balance sheets.

Special Revenue Funds

Special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes. No expenditures can be made from special revenue funds for operations of the Office. Unexpended amounts at year-end are restricted for future program expenditures in the fund balance sheets.

Public Election Fund (SHARE 81200)—The public election fund is funded through State appropriations and was established by legislation at 1-19A-10 NMSA for the purposes of:

- a. Financing the campaigns of certified candidates for covered offices;
- b. Paying administrative and enforcement costs of the Voter Action Act (1-19A-1 to 1-19A-17 NMSA 1978); and
- c. Carrying out all other specified provisions of the Voter Action Act.

This is a non-reverting fund. The fund receives certain fee income from inspection and supervision fees pursuant to 62-8-8 NMSA 1978, utility and carrier inspection fees pursuant to 63-7-20 NMSA 1978, and insurance premium tax pursuant to 59A-6-2 NMSA 1978. See 1-19A-10D NMSA 1978.

Severance Tax Bond (STB)Capital Outlay Fund (SHARE 89200)—Created by Laws of 2011, Chapter 5, Section 13, to provide for information technology upgrades, including computers, servers and disaster recovery upgrades.

Convenience Fee Fund (SHARE 43170)—Created by Laws of 2015, Chapter 66, Section 1, to account for credit card convenience fees for the purpose of defraying the cost of the service to process credit card payments. This is a non-reverting fund.

State of New Mexico
Office of the Secretary of State
Notes to the Financial Statements
June 30, 2016

Help America Vote Act Fund (HAVA) (SHARE 90300)—The HAVA fund is used to account for the federal funds received relating to the Help America Vote Act. The HAVA fund also receives state funds pursuant to federal matching requirements. This is a non-reverting fund, restricted to specific purposes by the Help America Vote Act. This is a non-budgeted fund for fiscal year ending 2016.

Arbitration Fund (SHARE 02500)—Created by Laws 1997, Chapter 112, an arbitration hearing shall be conducted by a single arbitrator selected within ten days by the person against whom the penalty has been imposed from a list of five arbitrators provided by the Secretary of State. Neither the Secretary of State nor a person subject to the Lobbyist Regulation Act, Campaign Reporting Act, or Financial Disclosure Act may serve as an arbitrator. Arbitrators shall be considered to be independent contractors, not public officers or employees, and shall not be paid per diem or mileage. This is a non-reverting fund. This is a non-budgeted fund for fiscal year ending 2016.

Fiduciary Funds

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

Notary Fund (SHARE 79900)—for Notary Public and other fees, an agency fund is used to report assets held for others that are not available to support the Office’s activities. This agency fund is used to collect various fees under 8-4-4 NMSA 1978 that are remitted to the State General Fund.

Corporation Fees Fund (SHARE 12210)—Established by Chapter 53, NMSA 1978, this fund is used to account for the collection of fees by the Corporations Bureau that are remitted to the State General Fund.

Investments

Office investments are deposited in the New Mexico State Treasurer’s State General Fund Investment Pool.

Accounts Receivable

All accounts receivable are considered fully collectible.

Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated assets which are recorded at their estimated fair value at the date of donation. Capital assets with a value exceeding \$5,000 are capitalized and depreciated. Capital assets acquired in the current year are recorded as capital outlay expenditures in the governmental fund financial statements.

State of New Mexico
Office of the Secretary of State
Notes to the Financial Statements
June 30, 2016

Capital assets of the Office are depreciated on the straight-line method over the estimated useful life of three years for computer equipment, software, and furniture, and five years for voting systems under the care and custody of the Counties.

Compensated Absences

The Office's policies regarding annual leave permits employees to accumulate earned but unused annual leave. The liability for these compensated absences is recorded as current and noncurrent liabilities in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absences liability payable from expendable available financial resources. Vacation and sick leave earned and not taken is cumulative; however, sick pay up to 600 hours is forfeited upon termination of State service and vacation time is limited to 240 hours. Sick leave accumulated in excess of 600 hours, not to exceed 120 hours, is payable semiannually to qualified employees at a rate equal to 50 percent of their hourly rate. Upon retirement, sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50 percent hourly rate. Historically, all compensated absences have been paid out of the general fund.

Net Position and Fund Balances

The difference between assets and liabilities is "net position" on the government-wide statements and "fund balance" on governmental fund statements.

Net position is classified in the following three categories:

Net investment in capital assets—consist of capital assets, net of accumulated depreciation. The Office has no outstanding debt relating to capital assets.

Restricted net position—restricted net position consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position—represents net position that does not meet the definition of the two preceding categories.

Fund balances related to the Office's governmental funds are classified in the following categories:

Restricted—Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

State of New Mexico
Office of the Secretary of State
Notes to the Financial Statements
June 30, 2016

Committed—Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the Office through ordinance or resolution approved prior to year-end. The committed amounts cannot be used for any other purpose unless the Office removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned—All amounts not included in other fund balance classifications.

When both restricted and unrestricted resources are available for use, it is the Office's policy to use restricted resources first, and then unrestricted resources as they are needed.

Program Revenues

Program revenues include charges for copies, credit card convenience fees, and other miscellaneous fees collected according to the statute designated for operations.

Budgets and Budgetary Accounting

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

1. Prior to September 1, the Office submits to State Budget – Finance Control Division, Department of Finance and Administration (DFA), and the Legislative Finance Committee (LFC) an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.
2. Following their budget hearings with the Office, the DFA and the LFC prepare their own budget recommendations to the legislature.
3. Budget hearings are then scheduled before the finance committee of the New Mexico House of Representatives and Senate. The final outcome of these hearings is incorporated into the General Appropriations Act.
4. The Office then submits, on or before May 1, an annual operating budget request to the State Budget Division which reviews the request and subsequently approves the budget based upon the appropriations made by the legislature. The DFA approved operating budget becomes effective on July 1. All subsequent budget transfers and increases must be authorized by the Director of the State Budget Division.
5. Budgets are adopted on the modified accrual basis. Budgetary control is exercised by the Office at the appropriations program level (A-code, P-code, R-code, and Z-code). Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.
6. The non-budgeted funds for the Office are the Arbitration, HAVA, and Agency funds.

State of New Mexico
Office of the Secretary of State
Notes to the Financial Statements
June 30, 2016

7. Appropriations lapse at the end of the fiscal year except for those amounts related to goods and services received by June 30th or are multi-year appropriations.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interfund Activity

Amounts due to and due from other funds represent fees owed from the Convenience fees fund to the agency fund. Interfund receivables or payables at year-end are netted as part of the reconciliation to the government-wide financial statements.

New Governmental Accounting Standards Board (GASB) Pronouncements

GASB has issued several statements which have not been implemented by the Office. Implementation of these statements is not expected to significantly impact accounting or financial reporting by the Office.

3) State General Fund Investment Pool

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

The Financial Control Division (FCD), within the Department of Finance and Administration (DFA), in collaboration with the State Treasurer's Office, implemented a comprehensive reconciliation model that compared aggregated agency claims on the SGFIP to the associated resources held by the State Treasurer's Office. This process has been in place for nearly two years and applied across three fiscal years with stable results. There have been many reviews of the process and each review of the reconciliation process has deemed it to be adequate and FCD in compliance with the established procedures. Successfully addressing this issue in fiscal year 2015 allowed DFA to reinstate the \$100 million that had been reserved as a loss contingency.

State of New Mexico
Office of the Secretary of State
Notes to the Financial Statements
June 30, 2016

For fiscal year 2016, the following assertions are provided:

1. The calculated difference between resources maintained by STO and the agency claims has remained stable and within a very narrow and acceptable range over the twelve months of fiscal year 2016.
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.

4) Investment in the State General Fund Investment Pool

State law (Section 8-6-3 NMSA 1978) requires the Office’s cash be managed by STO. Accordingly, the investments of the Office consist of an interest in the State General Fund Investment Pool managed by the New Mexico State Treasurer’s Office. At June 30, 2016, the Office had the following invested in the State General Fund Investment Pool:

SHARE Account	Fund Description	SHARE Balance
18000	General Fund	\$ 3,187,343
81200	Public Election Fund	240,052
43170	Convenience Fees Fund	37,092
89200	Severance Tax Bond Capital Outlay Fund	87
90300	HAVA Fund	310
02500	Arbitration Fund	30,482
		<u>\$ 3,495,366</u>

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

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

For additional GASB Statement No. 40 disclosure information regarding cash held by the New Mexico State Treasurer’s Office, the reader should see the separate audit report for the New Mexico State Treasurer’s Office for the fiscal year ended June 30, 2016.

State of New Mexico
Office of the Secretary of State
Notes to the Financial Statements
June 30, 2016

5) Interfunds

The amounts due from other agencies in the statement of net position consist of grants and other receivables at year-end.

The amount due to the State General Fund in the statement of net position of \$63,794 consists of \$39,020 in current fiscal year reversions, \$24,759 in registration fees, and \$15 for other purposes. An additional \$10,119 is owed from agency funds.

6) Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance June 30, 2015 as restated	Additions	Deletions	Balance June 30, 2016
<i>Capital assets being depreciated</i>				
Computer equipment, software and furniture	\$ 2,180,361	\$ -	\$ -	\$ 2,180,361
Voting systems under the care and custody of the Counties	<u>31,383,482</u>	<u>15,720</u>	<u>18,202,925</u>	<u>13,196,277</u>
Total capital assets being depreciated	<u>33,563,843</u>	<u>15,720</u>	<u>18,202,925</u>	<u>15,376,638</u>
<i>Less accumulated depreciation for:</i>				
Computer equipment, software and furniture	(2,012,306)	(136,679)	-	(2,148,985)
Voting systems under the care and custody of the Counties	<u>(21,273,126)</u>	<u>(2,443,486)</u>	<u>(18,202,925)</u>	<u>(5,513,687)</u>
Total accumulated depreciation	<u>(23,285,432)</u>	<u>(2,580,165)</u>	<u>(18,202,925)</u>	<u>(7,662,672)</u>
Net capital assets being depreciated	<u>\$ 10,278,411</u>	<u>\$ (2,564,445)</u>	<u>\$ -</u>	<u>\$ 7,713,966</u>

Depreciation expense for the year ended June 30, 2016, was \$2,580,165. The capital assets are used by all functions. The Office does not own any infrastructure assets as of June 30, 2016.

State of New Mexico
Office of the Secretary of State
Notes to the Financial Statements
June 30, 2016

7) Accrued Compensated Absences

During the year ended June 30, 2016, the following changes occurred in the compensated absences liability:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Current Portion
Annual leave	\$ 133,774	\$ 86,767	\$ 105,079	\$ 115,462	\$ 57,731
Sick leave	2,439	2,758	2,375	2,822	1,411
Compensatory leave	7,124	87,848	74,306	20,666	10,333
Total	<u>\$ 143,337</u>	<u>\$ 177,373</u>	<u>\$ 181,760</u>	<u>\$ 138,950</u>	<u>\$ 69,475</u>

Substantially all of the compensated absences balances have been paid by the general fund in previous years.

8) Retirement Benefits—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 the fiscal year ending June 30, 2016.

The Office, 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 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.

Information concerning the net pension liability, pension expense and pension-related deferred inflows and outflows of resources of the primary government will be contained in the 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.

State of New Mexico
Office of the Secretary of State
Notes to the Financial Statements
June 30, 2016

9) Post Retirement Benefits—Retiree Health Care Plan

Plan Description

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

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act 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, New Mexico 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.

State of New Mexico
Office of the Secretary of State
Notes to the Financial Statements
June 30, 2016

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, 2016, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Office's contributions to the RHCA for the years ended June 30, 2016, 2015, and 2014, were \$43,949, \$46,465 and \$46,859, respectively, which equals the required contributions for each year.

10) Deferred Compensation

The State of New Mexico offers state, local government and school district employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and those local government and school district employees whose employers have elected participation in the plan, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. There are employees that are making contributions to the Deferred Compensation Plan. Neither the Office nor the State of New Mexico makes any contributions to the Deferred Compensation Plan. All contributions withheld from participants by the Office have been paid to the New Mexico Public Employees Retirement Association, which administers the plan.

State of New Mexico
Office of the Secretary of State
Notes to the Financial Statements
June 30, 2016

11) Risk Management

The Office is exposed to various risks of loss for which the Office carries insurance (auto; unemployment compensation; crime; general liability, civil rights; property; and worker's compensation). The Office obtains coverage through the State of New Mexico Risk Management Division (RMD); claims are processed through RMD. There are no material matters outstanding at June 30, 2016. The Office expended \$385,465 for this coverage in fiscal year 2016.

12) Special and Deficiency Appropriations

The Office received a supplemental appropriation under Laws of 2016, Chapter 11, Section 6, Item 12. The Office received \$500,000 for election expenses in fiscal year 2016. As of June 30, 2016, \$39,020 of unexpended amounts should be reverted to the general fund.

The Office received a special appropriation under Laws of 2015, Chapter 101, Section 5, Item 20. The Office received \$541,400 to be used for the 2016 Primary Election. As of June 30, 2016, there were no unexpended funds.

The Office received a special appropriation under Laws of 2016, Chapter 11, Section 5, Item 20. The Office received \$950,000 to be used for the 2016 General Election. No funds were expended in fiscal year 2016.

13) Multi-Year Appropriations

At year-end, the Office had two outstanding multi-year appropriations which are reported as committed net position in the accompanying financial statements as follows:

Laws of 2013, Chapter 227, Section 7, Item 10 – \$1,215,000 to purchase and implement new software and related information technology for the business services division. The appropriation expired at the end of fiscal year. The Laws of 2015, Chapter 63, Section 7 extended the expiration of the funds through fiscal year 2016. The agency has an unexpended balance of \$5,860 as of June 30, 2016.

Laws of 2015, Chapter 101, Section 7, Item 12 – \$1,400,000 to continue the implementation of the Integrated Reporting and Integrity System (IRIS). The Office was authorized to use \$500,000 of the total appropriation in fiscal year 2016. The Office spent \$232,341 as of June 30, 2016.

State of New Mexico
Office of the Secretary of State
Notes to the Financial Statements
June 30, 2016

14) Subsequent Events

As of the date of these financial statements, the Office requested two supplemental appropriations for fiscal year 2017. One in the amount of \$179,000 from the Public Election Fund for expenditures related to the 2016 general election; and one for \$117,220 to pay court-ordered costs and fees in *ACLU v. Duran*.

The Office also has pending litigation (*Vildasol v. Secretary of State*) that was on appeal and has been remanded to the First Judicial Court. Mediation is scheduled for December 16, 2016, and potentially could go to trial in February 2017. Any potential liability is unknown at this time.

15) Restatement of Previously Reported Amounts

The accompanying financial statements reflect an adjustment to previously reported net position, which was necessary to correct accounting errors related to accumulated depreciation as of July 1, 2015. The adjustment increased accumulated depreciation and decreased net position of governmental activities at July 1, 2015, by \$1,151,922.

Required Supplementary Information

State of New Mexico
Office of the Secretary of State
Schedule of Revenues and Expenditures—Budget and Actual—
General Fund (18000) by Appropriation
For the Year Ended June 30, 2016

	Budget Original	Budget Final	Actual Amounts	Variance with Final Budget – Favorable (Unfavorable)
ZA0612 - L16 2S C11 S006 I012				
Revenues				
General fund appropriations	\$ 500,000	\$ 500,000	\$ 500,000	\$ -
Total revenues	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ -</u>
Expenditures				
Contractual services	\$ 342,000	\$ 297,249	\$ 258,391	\$ 38,858
Other costs	158,000	202,751	202,589	162
Total expenditures	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 460,980</u>	<u>\$ 39,020</u>
Z50520 - L15 C101 S005 I020				
Revenues				
General fund appropriations	\$ 541,400	\$ 541,400	\$ 541,400	\$ -
Total revenues	<u>\$ 541,400</u>	<u>\$ 541,400</u>	<u>\$ 541,400</u>	<u>\$ -</u>
Expenditures				
Other costs	\$ 541,400	\$ 541,400	\$ 541,400	\$ -
Total expenditures	<u>\$ 541,400</u>	<u>\$ 541,400</u>	<u>\$ 541,400</u>	<u>\$ -</u>
Z50712 - L15 1S C101 S007 I011				
Revenues				
General fund appropriations	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	\$ -
Total revenues	<u>\$ 1,400,000</u>	<u>\$ 1,400,000</u>	<u>\$ 1,400,000</u>	<u>\$ -</u>
Expenditures				
Contractual services	\$ 1,400,000	\$ 1,400,000	\$ 232,341	\$ 1,167,659
Total expenditures	<u>\$ 1,400,000</u>	<u>\$ 1,400,000</u>	<u>\$ 232,341</u>	<u>\$ 1,167,659</u>
Z30710 - L13 1S C227 S007 I010				
Revenues				
General fund appropriations	\$ 292,165	\$ 292,165	\$ -	\$ (292,165)
Total revenues	<u>\$ 292,165</u>	<u>\$ 292,165</u>	<u>\$ -</u>	<u>\$ (292,165)</u>
Expenditures				
Contractual services	\$ 292,165	\$ 292,165	\$ 286,305	\$ 5,860
Total expenditures	<u>\$ 292,165</u>	<u>\$ 292,165</u>	<u>\$ 286,305</u>	<u>\$ 5,860</u>

State of New Mexico
Office of the Secretary of State
Schedule of Revenues and Expenditures—Budget and Actual—
General Fund (18000) by Appropriation — continued
For the Year Ended June 30, 2016

	Budget Original	Budget Final	Actual Amounts	Variance with Final Budget – Favorable (Unfavorable)
ZA0520 - L16 2S C11 S005 I020				
Revenues				
General fund appropriations	\$ 950,000	\$ 950,000	\$ 950,000	\$ -
Total revenues	<u>\$ 950,000</u>	<u>\$ 950,000</u>	<u>\$ 950,000</u>	<u>\$ -</u>
Expenditures				
Other costs	\$ 950,000	\$ 950,000	\$ -	\$ 950,000
Total expenditures	<u>\$ 950,000</u>	<u>\$ 950,000</u>	<u>\$ -</u>	<u>\$ 950,000</u>
P642 - Secretary of State				
Revenues				
General fund appropriations	\$ 4,867,200	\$ 4,823,900	\$ 4,823,900	\$ -
Total revenues	<u>\$ 4,867,200</u>	<u>\$ 4,823,900</u>	<u>\$ 4,823,900</u>	<u>\$ -</u>
Expenditures				
Personal services and benefits	\$ 4,160,000	\$ 3,945,000	\$ 3,696,144	\$ 248,856
Contractual services	129,400	129,400	128,231	1,169
Other	577,800	534,500	457,099	77,401
Total expenditures	<u>\$ 4,867,200</u>	<u>\$ 4,608,900</u>	<u>\$ 4,281,474</u>	<u>\$ 327,426</u>
P783 - Elections				
Revenues				
General fund appropriations	\$ 2,363,200	\$ 2,363,200	\$ 2,363,200	\$ -
Total revenues	<u>\$ 2,363,200</u>	<u>\$ 2,363,200</u>	<u>\$ 2,363,200</u>	<u>\$ -</u>
Expenditures				
Contractual services	\$ 953,400	\$ 993,400	\$ 951,605	\$ 41,795
Other	1,409,800	1,584,800	1,550,786	34,014
Total expenditures	<u>\$ 2,363,200</u>	<u>\$ 2,578,200</u>	<u>\$ 2,502,391</u>	<u>\$ 75,809</u>

State of New Mexico
Office of the Secretary of State
Schedule of Revenues and Expenditures—Budget and Actual—
Public Election Fund (81200) by Appropriation
For the Year Ended June 30, 2016

	Budget Original	Budget Final	Actual Amounts	Variance with Final Budget – Favorable (Unfavorable)
P642 - Secretary of State				
Revenues				
General fund appropriations	\$ -	\$ 685,689	\$ -	\$ (685,689)
Total revenues	<u>\$ -</u>	<u>\$ 685,689</u>	<u>\$ -</u>	<u>\$ (685,689)</u>
Expenditures				
Other costs	\$ -	\$ 685,689	\$ 685,689	\$ -
Total expenditures	<u>\$ -</u>	<u>\$ 685,689</u>	<u>\$ 685,689</u>	<u>\$ -</u>
P783 - Elections				
Revenues				
General fund appropriations	\$ 1,250,000	\$ 1,250,000	\$ 1,400,000	\$ 150,000
Interest income	-	-	2,336	2,336
Miscellaneous income	-	-	37,388	37,388
Total revenues	<u>\$ 1,250,000</u>	<u>\$ 1,250,000</u>	<u>\$ 1,439,724</u>	<u>\$ 189,724</u>
Expenditures				
Other costs	\$ 1,250,000	\$ 1,250,000	\$ 1,248,649	\$ 1,351
Total expenditures	<u>\$ 1,250,000</u>	<u>\$ 1,250,000</u>	<u>\$ 1,248,649</u>	<u>\$ 1,351</u>
Z4000 - SOS Campaign Reporting				
Revenues				
General fund appropriations	\$ 314,739	\$ 314,739	\$ 196,897	\$ (117,842)
Total revenues	<u>\$ 314,739</u>	<u>\$ 314,739</u>	<u>\$ 196,897</u>	<u>\$ (117,842)</u>
Expenditures				
Other costs	\$ 314,739	\$ 314,739	\$ 196,897	\$ 117,842
Total expenditures	<u>\$ 314,739</u>	<u>\$ 314,739</u>	<u>\$ 196,897</u>	<u>\$ 117,842</u>

State of New Mexico
Office of the Secretary of State
Notes to the Required Supplementary Information
June 30, 2016

1) Budgetary Basis of Accounting

Budgets are adopted on the modified accrual basis. The annual appropriated budget is legally enacted and provides for a legal level of control at the appropriation program level (A-Code, P-Code, R-code, and Z-Code).

Other Supplementary Information

State of New Mexico
Office of the Secretary of State
Schedule of Changes in Fiduciary Assets and Liabilities – Agency Funds
For the Year Ended June 30, 2016

	Notary Fund (79900)			Ending Balance
	Beginning Balance	Increase	Decrease	
Assets				
Investment in SGFIP	\$ -	\$ 1,285,782	\$ (1,283,987)	\$ 1,795
Accounts receivable	1,860	4	-	1,864
Total assets	\$ 1,860	\$ 1,285,786	\$ (1,283,987)	\$ 3,659

Liabilities				
Accounts payable	\$ (50)	\$ 50	\$ -	\$ -
Due to State General Fund	(1,810)	1,279,004	(1,280,853)	(3,659)
Total liabilities	\$ (1,860)	\$ 1,279,054	\$ (1,280,853)	\$ (3,659)

	Corporation Fees Fund (12110)			Ending Balance
	Beginning Balance	Increase	Decrease	
Assets				
Investment in SGFIP	\$ -	\$ 3,059,401	\$ (3,059,401)	\$ -
Due from other funds	-	36,346	(29,886)	6,460
Total assets	\$ -	\$ 3,095,747	\$ (3,089,287)	\$ 6,460

Liabilities				
Due to State General Fund	\$ -	\$ 3,029,347	\$ (3,035,807)	\$ (6,460)
Total liabilities	\$ -	\$ 3,029,347	\$ (3,035,807)	\$ (6,460)

See accompanying notes and independent auditor's report.

State of New Mexico
Office of the Secretary of State
Schedule of Operating Transfers
For the Year Ended June 30, 2016

SHARE Fund	Agency	In	Out
General Fund (18000)			
(1) 85300	Department of Finance and Administration	\$ 4,867,200	\$ -
(2) 85300	Department of Finance and Administration	2,363,200	-
(3) 85300	Department of Finance and Administration	1,400,000	-
(4) 85300	Department of Finance and Administration	500,000	-
(5) 85300	Department of Finance and Administration	541,400	-
(6) 85300	Department of Finance and Administration	950,000	-
(7) 85300	Department of Finance and Administration	-	43,300
(8) 85300	Department of Finance and Administration	-	39,020
Public Election Fund (81200)			
(9) 71000	Taxation and Revenue Department	1,200,000	-
(10) 50600	Public Regulation Commission (PRC)	100,000	-
(11) 50600	Public Regulation Commission (PRC)	100,000	-
(12) 20900	New Mexico State Board of Finance	<u>314,739</u>	<u>117,842</u>
	Total	<u>\$ 12,336,539</u>	<u>\$ 200,162</u>

- (1) General fund appropriation
- (2) General fund appropriation
- (3) Laws of 2015, Chapter 101, Section 7, Item 11
- (4) Laws of 2016, Chapter 11, Section 6, Item 12
- (5) Laws of 2015, Chapter 101, Section 5, Item 20
- (6) Laws of 2016, Chapter 11, Section 5, Item 20
- (7) Laws of 2016, Chapter 11, Section 10-A
- (8) Reversion to the State General Fund
- (9) Distribution from the Tax Administration Suspense Fund, Section 7-1-6.58 NMSA 1978
- (10) Distribution from the PRC per Section 1-19A-10 NMSA 1978
- (11) Distribution from the PRC per Section 1-19A-10 NMSA 1978
- (12) Pursuant to Emergency Board of Finance Grant 209-177

See accompanying notes and independent auditor's report.

State of New Mexico
Office of the Secretary of State
Schedule of Vendor Information
For the Year Ended June 30, 2016

Agency Number	Agency Name	Agency Type	RFB#/RFQ# (if applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
370	Office of the Secretary of State	State Agencies		Sole Source	BPro, Inc.	Winner	\$ 58,000	\$ -	Pierre, SD	No	No	IT Technical Support and Custom Software Maintenance Services for the New Mexico Integrated Reporting and Integrity System	
370	Office of the Secretary of State	State Agencies		Sole Source	BPro, Inc.	Winner	\$ 172,931	\$ -	Pierre, SD	No	No	IT Technical Support to modernize/improve the software functionality in the New Mexico Integrated Reporting and Integrity System	

See accompanying notes and independent auditor's report.

Compliance Section

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

Mr. Brad Winter, Secretary of State
State of New Mexico, Office of the Secretary of State
And
Mr. Timothy Keller, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information and the budgetary comparisons for the general fund and major special revenue funds of the State of New Mexico, Office of the Secretary of State (the "Office") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated November 29, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office'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 Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office'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 Office'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 preceding paragraph 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 as item 2016-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The Office's Response to the Finding

The Office's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Office'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

REDW LLC

Albuquerque, New Mexico
November 29, 2016

State of New Mexico
Office of the Secretary of State
Schedule of Findings and Responses
For the Year Ended June 30, 2016

Section I — Financial Statement Findings

**2014-001 — Capital Assets Management—Capital Assets Listing (Significant Deficiency)
(Repeated)**

Criteria: The Office should maintain a capital asset listing, including related depreciation, which accurately reflects all activity throughout the year and agrees to the balance in the audited financial statements, as defined in the State of New Mexico Manual of Model Accounting Practices 2016, FIN 6.1 through FIN 6.5.

Condition: The Office's detailed capital asset listing did not include all capital assets purchased by the Office as of June 30, 2016. An adjustment of \$1,151,922 was required to correct accumulated depreciation on these assets. The Office has made progress updating its capital assets listing, but the calculation of depreciation did not include several assets of the Office.

Cause: The Office did not have adequate controls in place throughout the year and at year-end to ensure that the detailed capital assets listing reconciled to its accounting records.

Effect: A material adjustment was required in order to accurately present the Office's accumulated depreciation of capital assets.

Auditor's Recommendations: We recommend that the Office compile their records for all capital assets into one listing and ensure the listing agrees to the audited financial statements at June 30, 2016. The Office should then put adequate controls in place to ensure the listing is completed accurately going forward, and that depreciation expense is accurately calculated going forward.

Management's Response: The Chief Financial Officer and the Contracts and Assets Manager, as of November 2016, have completed an accurate and complete listing of all assets and correct depreciation calculations will be maintained and used going forward.

State of New Mexico
Office of the Secretary of State
Corrective Action Plan
For the Year Ended June 30, 2016

Audit Finding	Corrective Action Plan	Persons Responsible	Estimated Completion Date
2014-001: Capital Assets Management - Capital Assets Listing	See management's response at the finding	Chief Financial Officer and Contract and Assets Manager	November 30, 2016

State of New Mexico
Office of the Secretary of State
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2016

Reference Number	Finding	Status
2011-005	Cash Receipts	Resolved
2014-001	Capital Assets Management	Repeated
2015-001	Travel and Per Diem	Resolved
2015-002	Payment of Invoice Made out of Contract	Resolved
2015-003	Inaccurate Reversions to State General Fund	Resolved
2015-004	Disposition of Capital Assets	Resolved

State of New Mexico
Office of the Secretary of State
Other Disclosures
For the Year Ended June 30, 2016

Exit Conference

The contents of the Office's report were discussed on November 29, 2016. The following individuals were in attendance:

Office of the Secretary of State

Brad Winter	Secretary of State
Ken Ortiz	Chief of Staff
Veronica Albin	Chief Financial Officer

REDW_{LLC}

Joshua Trujillo	Principal
-----------------	-----------

Preparation of Financial Statements

REDW assisted in the preparation of the financial statements presented in this report. The Office's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.