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**STATE OF NEW MEXICO
ECONOMIC DEVELOPMENT
DEPARTMENT**

**FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2016

atkinson

CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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State of New Mexico Economic Development Department

OFFICIAL ROSTER

June 30, 2016

OFFICE OF THE SECRETARY

Jon Barela, Cabinet Secretary

Barbara Brazil, Deputy Cabinet Secretary

Angela Heisel, Communications Director

ADMINISTRATIVE SERVICES

Marilu Casillas, ASD Director, CFO

Chris Romero, Financial Coordinator, CPO

Frances Velarde, Accountant

Mary Armijo, Business Operations Specialist

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

State of New Mexico Economic Development Department
and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the budgetary comparisons for the general fund and major special revenue funds of the State of New Mexico Economic Development Department (the Department) as of and for the year ended June 30, 2016, 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 have also audited the Department's budgetary comparison schedules of the components of the general fund and major capital projects funds presented as supplementary information for the year ended June 30, 2016, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 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 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 and each major fund of the State of New Mexico Economic Development Department as of June 30, 2016, and the respective changes in financial position and respective budgetary comparisons of the general fund and 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 comparison schedules for the components of the general fund and capital projects funds for the year ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note B, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, major funds and aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2016, and the changes in financial position and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America. We did not modify our opinion for this matter.

As discussed in Note B26, the State of New Mexico, as a single employer, has implemented GASB 68, *Accounting and Financial Reporting for Pensions*, in the June 30, 2016, Comprehensive Annual Financial Reports (CAFR). Accordingly, there is no allocation of the proportional share of the net pension liability to individual agencies or to the Agency's governmental funds. All other required footnotes and other disclosures required by the Governmental Accounting Standards Board are included in the State of New Mexico CAFR for June 30, 2016. 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 on pages 5 through 18 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.

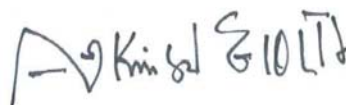
Other Information

Our audit was performed for the purpose of forming opinions on the basic financial statements and the budgetary comparison schedules for component funds of the general fund and capital projects funds presented as supplementary information. The accompanying schedule of multiple year capital projects funded by special and severance tax capital outlay appropriations, schedule of individual deposit accounts and memoranda of understanding required by 2.2.2. NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Schedule of Vendor Information, required by 2.2.2. NMAC, 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 30, 2016, 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.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 30, 2016, except
for Note T as to which the date is
February 23, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2016

The State of New Mexico Economic Development Department's (the Department or NMEDD) discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Department's financial activity, identify changes in the Department's financial position and identify any financial issues or concerns. The Management's Discussion and Analysis (MD&A) is designed to focus on the past year's activities and financial changes.

As management of the Department, we offer readers this narrative overview and analysis of the financial activities of the Department for the year ended June 30, 2016.

Financial Highlights

- In the fiscal year ended June 30, 2016, the total assets of the Department exceeded total liabilities by \$56,047,028.
- The Department acquired \$0 in total capital assets with individual acquisition values greater than \$5,000.
- Of the \$58,511,560 in total current assets, nearly 99% was in the form of cash and investments in the State General Fund Investment Pool.
- The total cost of Department programs was \$23,939,283, whereas the total Department revenue was \$37,048,706. Reversions to State General Fund amounted to \$234,321.

Overview of the Financial Statements

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

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Department's financial statements, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Department's assets and liabilities and deferred inflows and outflows of resources, with the residual reported as total net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

The statement of activities presents information showing how the government's net position changed during the most recent 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 related 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 (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Department that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Department include economic development, program support, technology commercialization and community development. Within the Department, there are no business-type activities.

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. The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Department has three types of Governmental Funds - General Fund, Special Revenue, and Capital Outlay.

Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, 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. Such information may be useful in evaluating a government's near-term financing requirements.

The Department maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, two Capital Projects Funds, and five Special Revenue Funds. All funds are presented as major.

Governmental Funds - The Department adopts an annual appropriated budget for its General and Special Revenue Funds. The basic governmental fund financial statements can be found on pages 21 through 26 of this report.

Other Information. Supplemental information begins on page 60.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

Government-Wide Financial Analysis

As mentioned earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Department, assets exceeded liabilities by \$56,047,028 at the close of the 2016 fiscal year.

The second largest portion of Department net position is associated with the Local Economic Development Act funding, which is included in the general fund, Job Incentive Training Program, which is presented in a separate fund. The Department uses this cash to assist businesses in providing on-the-job training and job opportunities to New Mexicans, while offering funding assistance to New Mexico businesses.

At the end of the 2016 fiscal year, the Department was able to report positive balances in the category of net position. The same situation held true for the prior fiscal year.

Governmental Activities

Governmental activities increased the Department's net position by \$12,817,509.

Financial Analysis of the Government's Funds

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

As of the end of the 2016 fiscal year, the Department's governmental funds reported combined ending fund balances of \$56,053,272, an increase of \$12,817,509 in comparison with the prior year. The majority of this amount is derived from the Special Appropriations relating to MainStreet and LEDA.

During the 2016 fiscal year, the net change in fund balance of the Department's General Fund increased by \$6,714,409. Fund balance was \$35,444,781 at June 30, 2016, in the General Fund, which increased largely due to additional LEDA funding.

The Department's assets at the fund level are mostly comprised of investment in the State General Fund Investment Pool, which is \$58,437,879 or almost 100% of the total assets. The fund liabilities are made up mostly of accounts payable, \$1,887,127, or 82%. As mentioned earlier, the Department's largest source of income comes from State General Fund Appropriations. The Department spent 37%, or \$8,844,567, on contractual services. The second largest expenditure category is "other" expenditures, which include funding the JTIP and other programs. The Department spent \$11,391,980, or 48%, in this category.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

Financial Analysis of the Department as a Whole

Net Position

The Department's condensed net position changed from fiscal year 2015, increasing from \$43.2 million, to \$56.3 million, which represented a 30% change.

**Detail of the Department's Condensed Net Position
as of June 30, 2016 and 2015**

	<u>FY 2016</u>	<u>FY 2015</u>	<u>Amount Change</u>	<u>Total % Change</u>
Governmental Activities				
Assets:				
Current assets	\$ 58,511,560	\$ 45,280,016	\$ 13,231,544	29%
Due from other state agencies	-	112,543	(112,543)	-100%
Capital and non-current assets	66,712	86,834	(20,122)	-23%
	<u>\$ 58,578,272</u>	<u>\$ 45,479,393</u>	<u>\$ 13,098,879</u>	29%
Liabilities:				
Current liabilities	\$ 2,531,245	\$ 2,316,032	\$ 215,213	9%
	2,531,245	2,316,032	215,213	9%
Net position:				
Invested in capital assets	66,712	86,834	(20,122)	-23%
Restricted	56,213,859	43,154,934	13,058,925	30%
Unrestricted	(233,544)	(78,407)	(155,137)	
	<u>56,047,027</u>	<u>43,163,361</u>	<u>12,883,666</u>	30%
Total liabilities and net position	<u>\$ 58,578,272</u>	<u>\$ 45,479,393</u>	<u>\$ 13,098,879</u>	29%

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

Statement of Activities

The Department's change in net position for fiscal year 2016 was an increase of \$12,883,666 (Statement of Activities). Total general and revenues from all sources for fiscal year 2016 were \$37,048,706, of which 41% is State General Fund appropriations.

	Statement of Activities			
	<u>FY 2016</u>	<u>FY 2015</u>	<u>Amount Change</u>	<u>Total % Change</u>
Governmental Activities				
Revenues:				
Program revenue	\$ -	\$ 200	\$ (200)	-100%
Federal other	379,329	4,543,760	(4,164,431)	-92%
	<u>379,329</u>	<u>4,543,960</u>	<u>(4,164,631)</u>	<u>-92%</u>
Total program revenues	379,329	4,543,960	(4,164,631)	-92%
General revenues:				
State General Fund appropriations	15,040,665	41,487,600	(26,446,935)	-64%
	<u>15,040,665</u>	<u>41,487,600</u>	<u>(26,446,935)</u>	<u>-64%</u>
Total general revenues	15,040,665	41,487,600	(26,446,935)	-64%
Total revenues	15,419,994	46,031,560	(30,611,566)	-67%
Expenses:				
Economic development	23,939,283	23,402,519	536,764	2%
Other sources (uses):				
Severance tax bonds proceeds	4,646,576	662,970	3,983,606	600%
Operating financing sources (uses)	11,999,700	148,000	11,851,700	8000%
Transfers in	5,000,000	-	5,000,000	0%
Transfers out - reversions	(243,321)	(88,547)	(154,774)	175%
	<u>21,402,955</u>	<u>722,423</u>	<u>20,680,532</u>	<u>2863%</u>
Total other sources	21,402,955	722,423	20,680,532	2863%
Change in net position	12,883,666	23,351,464	(10,467,798)	-45%
Net position, beginning	43,163,361	19,811,897	23,351,464	118%
Net position, ending	<u>\$ 56,047,027</u>	<u>\$ 43,163,361</u>	<u>\$ 12,883,666</u>	30%

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

Financial Analysis of the Department's Funds

Capital Assets and Debt Administration. The Department's investment in capital assets for its governmental activities amounts to \$66,712 (net of accumulated depreciation). This investment in capital assets includes machinery and equipment. The Department expended \$0 in capital assets whose individual acquisition values are greater than \$5,000 for the year. Additional information on the Department's capital assets can be found in the notes to this report.

There were no budgeted increases made to fund the Local Economic Development Act. The same amount of \$6,000,000 from 2015 was made to fund the Joint Incentive Training Program. In addition, to the final portion of federal funds from the U.S. Treasury State Small Business Incentive (SSBCI) that was passed-through to New Mexico Finance Authority in 2015 was returned to the Department in 2016 in the amount of \$5,000,000 to be re-characterized and re-invested in a new venture capital micro fund-of-funds approved state small business program.

The Department's total liabilities decreased \$10,544 over the previous fiscal year. The Department does not have any long-term debt or unearned revenue due to the State General Fund, but does owe the state \$37,604 for reversions at June 30, 2016.

Department Overview

The Department is one of 28 cabinet level departments within the executive branch of the New Mexico State Government. Founded by State statute in 1978, the Department's mission is to facilitate the creation, retention and expansion of jobs and to increase investment through public/private partnerships to establish a stable diverse economy in an effort to improve the quality of life for New Mexicans.

To achieve our mission, the Department provides leadership and technical assistance to communities, businesses and economic development organizations - this is done to empower both the public and private sectors to facilitate economic growth. Our emphasis is on the creation of diverse jobs that have a significant economic impact on the communities in which they occur.

In FY16 the Department held expenditures and costs flat while still facilitating the creation, retention and expansion of jobs and increasing investment through public/private partnerships in order to establish a stable diverse economy.

FY16 Program Results in Numbers

- 4,140 Total Jobs Created
- 10 Companies recruited by the Partnership (1,579 new jobs)
- 80 Business expansions assisted
- 23 Projects supported by LEDA investment of \$15.2M (2,426 new jobs); leveraged ratio of 16.8 to 1
- 2,238 New Mexicans trained by JTIP for 60 participating companies at an average wage of \$18.04
- \$22M in new private sector investment in MainStreet Districts & 248 building rehabilitations

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

- The Film Office recruited 63 total Film & Media Projects generating \$387M in direct spending and 260,307 Worker Days
- Exports under the New Mexico SBA STEP Grant program totaled an estimated \$10M exported worldwide by eligible small business concerns as a growing number of New to Export companies found markets abroad and Market Expansion firms expended sales and market outreach to new markets abroad

Department Efficiency

In Fiscal Year 2016, EDD had 24 vacant positions, 13 of these positions were filled leaving 11 vacancies as of June 30, 2016. Of the 24 vacancies, 21 were for resignations, one for involuntary separation, two due to an internal promotions and 5 positions were carried over from FY15.

New Mexico's private sectors continued to make gains in FY16. New Mexico narrowly missed its recently increased job creation target of 4,500 (previously 3,000 in FY15) by 360 jobs for a total of 4,140.

The Department received in Local Economic Development Act (LEDA) funds for FY16 that was instrumental in helping local New Mexico businesses expand and recruit new firms to the state.

The Job Training Incentive Program (JTIP) is also one of our instrumental tools in developing our workforce and creating jobs. JTIP exceeded its goal of 1400 workers trained by 838 for a total of 2,238 workers trained. Efforts in FY16 added to the recurring funding made available to the JTIP.

Our rural programs are paying great dividends from MainStreet's Historic Theater and the Frontier Community Initiatives to our investments in rural incubators and commercial USDA-certified kitchens helping entrepreneurs develop and sell their products.

In FY16, \$70,000 was awarded to five community kitchens. Two of the kitchens, the Taos Food Center and South Valley, served as mentors to communities considering a kitchen facility and new rural kitchens just getting started. The new startup kitchens are in Espanola, Ribera and El Morro.

Since Secretary Barela created the Historic Theaters Initiative in 2013, communities that have participated are experiencing an increase in visitors and business in local downtown commercial districts. In FY16, the Flickinger Theatre in Alamogordo and the Odeon Theater in Tucumcari were assisted. The funding provides for a digital conversion to show modern films in the new format and preservation of the historic theaters.

The Department added two new certified incubators to its previous inventory of five centers. They are Navajo Technical Innovation Center and the Taos County Economic Development Center. Previously the state's five certified business incubators launched a pilot effort to assist rural communities considering some form of entrepreneurship program. Each incubator mentored a community with a unique incubation project. The seven certified incubators now operating reported more than \$28,637,000 in revenues generated by their combined 188 clients who also support more than 580 jobs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

New Mexico's international trade export of goods supported 15,144 jobs, about 94% of which are primarily supported by the manufacturing sector. Between 2009 and 2015, export-related jobs in New Mexico more than doubled increasing from 7,497 to 15,144 jobs - a 102 percent increase and second only to Hawaii which experienced a 164 percent growth. (*We will be first when looking at the contiguous 48 states*).

New Mexico's exports to Mexico over this period increased by 338 percent compared to the nation's 65 percent. Almost half of New Mexico exports are going to Mexico and the share of exports to Mexico relative to total exports has continuously increased over time with significant shares being realized in the past two to three years.

New Mexico's ports of entry overweight zones with Mexico now extend from six to 12 miles. This eases the transport of goods between Mexico and New Mexico by allowing heavier loads to enter the state and trucks to unload cargo in New Mexico before shipping elsewhere. New Mexico extended the deduction for new trade support companies operating in the border zone with Mexico by continuing the credit through December 2020. Logistics and transportation companies located within 20 miles of a port of entry may qualify.

The New Mexico Partnership (NMP), a not-for-profit entity, contracts with the Department to market and recruit economic base jobs to New Mexico. NMP finished the FY16 fiscal year with a total of 10 locates and 1,519 jobs, 900 of which are attributed to the Safelite AutoGlass relocation to Rio Rancho, New Mexico.

The New Mexico State Film Office (NMFO), a division of the Department, serves the film, television and multi-media industry locally, nationally and internationally benefiting local economy by expanding job and business opportunities to increase in-state spending. The division's services are categorized as follows: (1) Recruitment: Emerging Media & Production; (2) Statewide Outreach; and, (3) Workforce Development.

Economic Development Division (EDD)

The EDD is comprised of seven teams, which contribute to the mission of the division. They are: New Mexico MainStreet Program, which includes of the Arts & Cultural District (ACD) Program, the Frontier Communities Program and the Historic Theatres Program; the Community, Business and Rural Development Team (CBRDT), which includes the Local Economic Assistance Development & Support Program (LEADS), the Business Retention & Expansion Program (BRE), and the Rural Economic Development Council, and serves as the Tribal Liaison; the Finance Development Team (FDT), which administers the Capital Outlay Funds, the FundIt Program, the Collateral Support Program, and the EB5 Program; the JTIP, which includes STEP UP and ISO9000; Office of Science & Technology (OS&T), which includes the Technology Research Collaborative (TRC); and the Office of International Trade (OIT).

The EDD had an extremely successful year. Highlights of those successes are detailed below: During FY16 the Office of Business Advocacy (OBA) opened 59 cases and resolved 63. For FY17 and FY18, business advocacy services will be decentralized and will be referred to the regional representative in which the business is located.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

The Job Training Incentive Program

JTIP's mission is to assist in the development of New Mexico's economy by providing funds to support training for new employment opportunities, as well as to provide skill enhancement to residents of New Mexico.

JTIP approved 60 businesses for \$13,481,558 in funding across New Mexico, which led to the creation of 2,238 new jobs, at an average wage of \$18.04 per hour.

Finance Development Team

The FDT facilitates the growth of new and existing businesses by acting as a catalyst through the utilization of financing tools available within New Mexico. The FDT also administers the agency's Capital Outlay funds.

In FY16, the LEDA team successfully awarded \$15.2 million and announced 2,426 jobs associated with those projects.

FundIt is an initiative of the Department, which was created as a formal collaboration between funding agencies such as Local Government Division, Capital Outlay Division of Department of Finance & Administration, NM Finance Authority, U.S. Small Business Administration, U.S. Department of Agriculture, U.S. Department of Housing and the NM Mortgage Finance Authority as a way to streamline the process for identifying and financing projects. The types of projects may include business development, community development, housing and/or downtown redevelopment. In FY16, FundIt met several times and recommended several projects for funding, all of which were referred to the proper funding agency.

Community, Business and Rural Development Team (CBRDT) & LEADS

The CBRDT commonly known as "regional representatives," assists communities to build their capacity for development and to advance the region's goals for economic growth. The CBRDT oversees and administers the LEADS program and conducts BR&E surveys in order to assess business needs within their regions.

The Regional Representative can identify state/local/federal programs which match the needs of the business. In addition, the team provides technical assistance to non-profit private and public economic development entities in direct support of their local job creation efforts. The following services are provided by the Regional Representative Team:

- LEADS, which provides contractual funding for communities or regional applicants. The funding may be used by the economic development organization to create jobs through recruitment, retention/expansion and startup activities; develop the tax base; and provide incentives for business development.
- The team completed 14 business development projects during the fiscal year
- Seven economic development projects were completed

For FY16, the CBRDT processed 21 applications. Ultimately 18 rural economic development projects were selected for funding of \$170,000, all of the projects will benefit rural and frontier areas of the state.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

MainStreet and Arts and Cultural District Programs

MainStreet assists affiliated communities in revitalizing their traditional commercial neighborhoods while preserving local cultural and historic resources. The technical assistance provided to the local communities by the MainStreet team creates a positive economic environment to create jobs and grow businesses within the districts.

MainStreet currently serves 27 affiliated MainStreet Districts, six state-authorized Arts and Cultural Districts, and seven Frontier Community projects. During FY16, MainStreet Districts saw \$22.1 million in private sector investments and 248 building rehabilitations and the creation of 552 new jobs in the MainStreet districts.

MainStreet is accredited and licensed through the National Main Street Center in Chicago, a subsidiary of the National Trust for Historic Preservation. Therefore, all technical assistance provided follows the established comprehensive economic strategies of the Main Street Four Point Approach™ of organization, design, promotion, and economic vitality, while tailoring those strategies to meet local economic goals and opportunities.

Arts and Cultural District:

As part of the MainStreet Program, there exists the Arts & Cultural District (ACD) program, which is one of the first in the nation and a model for other states and towns. By state statute, the Director of the MainStreet is the “coordinator” of the program. However, it is an inter-agency collaboration which includes the Historic Preservation and New Mexico Arts Divisions of Cultural Affairs; the Tourism Department and two statewide Foundations; the McCune Charitable Trust and the New Mexico Resiliency Alliance. The program utilizes place-based economic development strategies based on a community's heritage, cultural and arts assets to enhance the economic health and vitality within a walkable district.

Frontier Communities Initiative:

The Frontier Community Initiative was created by statute in 2013. It targets communities under 7,500 in population that currently do not have capacity to do the comprehensive MainStreet program. They apply to focus on one catalytic economic development project receiving technical professional assistance to develop and implement that project. In FY16, seven communities received assistance through this program. FY17 budget reductions will not allow for additional frontier projects in this fiscal year.

NM ISO9000

The NM ISO9000 program was created by the Department to provide training and assistance to New Mexico businesses in preparing for ISO 9001: 2008 certification. The agency partners with Manufacturing Extension Partnership (MEP) to provide classes to businesses wishing to obtain certification.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

Office of International Trade

OIT promotes and facilitates export sales of New Mexico goods and services worldwide and supports efforts to recruit foreign direct investment to New Mexico in order to assist the process of job creation, retention, and expansion throughout the state. Internationally, OIT assisted over 40 New Mexico companies to market their products abroad. New Mexico companies were able to participate and showcase their unique outdoor products with assistance under the New Mexico SBA STEP Grant program. A record number of six NM technology companies participated in the Hannover Messe event in Hannover, Germany in April 2016 to display their innovative range of products to one of the largest high technology venues in the world.

The OIT carries out the responsibilities of the Office through funding which was received by three consecutive State Trade Export Promotion (STEP) grants awarded by the US Small Business Administration for the purpose of assisting SBA-eligible small and midsize companies who wish to participate in overseas trade shows and trade missions organized by OIT. The Office of International Trade was awarded \$85,000 in 2011 and \$215,000 in 2012, \$193,700 in 2014, \$193,700 for the 2015 federal fiscal year, and \$200,000 for the 2016 federal fiscal year. The STEP funds received were premised on state matching funds. In this case, the state match was met with the salary of the sole Office of International Trade Director. The current award allows OIT to fund international trade activities until the end of the federal fiscal year on September 30, 2017.

Office of Science & Technology

The Department has developed a State Science and Technology Plan to capitalize on the presence of three national laboratories, three research universities, state-supported programs, and incentives for technology-based businesses in New Mexico. The plan focuses on water, energy, biosciences and photonics.

In FY15, the NMEDD hired a Director of Science & Technology to revamp commercialization efforts after several years of inactivity. The FY15 rebuilding year proved successful with significant accomplishments in FY16. The plan integrates the operations and funding of the OS&T, the Technology Research Collaborative, and the Defense Industry Adjustment Program and is focused on 3 strategic priorities: Grow and diversify existing technology companies, Commercialize technologies and innovations, and Increase research and development in emerging science and technology. During the year, the OST partnered with the U S Treasury, the NM State Investment Council and the New Mexico Finance Authority to launch the Catalyst Fund. The Catalyst Fund is a \$40 million fund of funds investment tool that is being managed through Sun Mountain Capital which will begin dispersing allocations mid-FY17.

Technology Research Collaborative

TRC is dedicated to the advancement of university and laboratory research for job creation and economic growth across the state. "The Collaborative" was initially convened in January of 2015, and has since engaged in additional discussions and a formal strategic planning meeting towards the goal of developing an operations concept and plan. The TRC has completed three studies and reports to support their work: Review of Projects Funded by TRC in 2006 and 2007; Technology Research Centers: A Study of State Programs for Technology Commercialization; and a Sensor Commercialization Report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

With FY 16 funding from the TRC, Governor Susana Martinez announced the first batch of funding to help develop and commercialize several innovative products that are the result of partnerships between researchers at New Mexico's laboratories and universities, and the private sector. The initiative is through the Technology Research Collaborative, which Governor Martinez reestablished in 2013 and allows teams of researchers to compete for funding to bring their ideas and products into the marketplace.

The six projects are:

- The University of New Mexico will collaborate with Sandia National Laboratory and **Dynamic Photonics** through a \$60,000 award to develop a significantly cheaper way to produce optical receivers which are used in laser-based fiber optic communications.
- With a \$62,000 award, UNM will collaborate with the Air Force Research Laboratory, and **Skinfrared, Inc.**, to develop advanced infrared imaging tools that can be used in a wide variety of operations, such as commercial, military, medical, and others.
- With \$40,000, UNM will collaborate with the Center for Integrated Nanotechnologies and **OptiPulse, Inc.** to commercialize new approaches to growing and expanding wireless broadband.
- Through a \$50,000 award, UNM will work with **Pressure Analysis Corporation** and Albuquerque's own Duke City Gladiators to develop football helmets designed to lower the risk of head injuries.
- With \$50,000, New Mexico State University will collaborate with **NMX Organic Pesticides** to develop pesticide and fertilizer products to provide organic farmers with more natural options to protect their crops.
- New Mexico Tech and Los Alamos National Laboratory will use a \$38,000 award to develop **IX Power's** arsenic removal technology to purify water used in the oil and gas industry.

Defense Industry Adjustment Program

NM EDD/OST obtained a \$1.4 M grant from the Office of Economic Adjustment. The Office of Economic Adjustment (OEA) is the Department of Defense (DoD) field organization responsible for supporting state and local governments in responding to major defense program changes, such as sequestration and force reduction, and assists states and communities in engaging the private sector in order to plan and develop local adjustment strategies. The grant is funding Phase 1 of a multi-year Defense Industry Adjustment program, and will be used to survey assets and the defense supply chain in New Mexico to develop an assistance program.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

Film Division

In FY16, The New Mexico State Film Office (NMFO) continued to expand recruitment, workforce and outreach efforts by guiding production companies through the Film Production Refundable Tax Credit incentive program, providing locations services, creating high-wage industry job opportunities for New Mexico residents and supporting statewide communities and filmmakers. The office services and connects production companies and industry professionals with organizations, businesses and communities throughout the state.

Record Year for production in New Mexico – NMFO had a second straight record-breaking year, injecting nearly \$390 million into the economy, shattering last fiscal year's record by almost \$100 million. With six (6) major television series: (*Midnight, Texas* (NBC pilot), *Longmire Season 5* (Netflix), *Preacher Season 1* (AMC), *From Dusk Till Dawn Season 3* (El Rey/Netflix), *The Night Shift Season 3* (NBC) and *Godless Season 1* (Netflix) and six (6) features (*Granite Mountain, Hostiles, An Ideal Home, Juarez, Cowboy Drifter and I Am That*) in production with the number of worker days totaling 260,307.

The NMFO continues to expand recruitment efforts by providing guidance to production companies located world-wide. In addition to general inquiries and subsequent meetings, over 253 new projects were logged by the office. Of the 253 new projects, seven (7) were major studio projects, five (5) were returning network and cable TV series, sixty-four (64) were local NM film projects, fourteen (14) were indie films over \$1M budget, five (5) were from internet studios and six (6) were major TV pilots.

Workforce Development

The Job Training Incentive Program for Film and Multimedia programs are designed to increase high-wage job opportunities to diversity skill sets and ultimately increase one's employability. Programs focus on advance crew training, continual education for seasoned professionals, exposure to the creative aspects of physical production, internships with digital media companies and transitioning New Mexico veterans and reserve member components with transferrable skill sets to the film and television industry, an initiative entitled "Operation Soundstage."

The Film Crew Advancement Program, serves as an incentive for participating companies to provide job opportunities for residents in standard industry crew positions. In FY16, twenty (20) production companies participated with qualifying 211 residents. Major participating productions include: (*Midnight, Texas* (NBC pilot), *Longmire Season 5* (Netflix), *Preacher Season 1* (AMC), *From Dusk Till Dawn Season 3* (El Rey/Netflix), *The Night Shift Season 3* (NBC) and *Godless Season 1* (Netflix) and more.

Initiatives

The NMFO continued to develop and implement several local outreach and program initiatives in FY16: NMFO's annual NM Film & Media Industry Conference took place at the Isleta Casino & Resort, providing a variety of compelling topics with an extraordinary array of forty in and out-of-state guest speakers and panelist, and over 400 registrants, a 26% increase as compared to 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

In December, the NMFO also participated in the ESPN's NM Bowl at UNM which included the debut screening of the New Mexico Sizzle Reel, a high energy promo highlighting productions shot in NM. The NMFO also had a celebrity guest appearance from Elise Eberle, New Mexico actor and star of the hit show Salem. The NM Bowl audience exceeded 50,000 attendees.

NMFO held a Las Cruces town hall with over eighty (80) participants discussing the state of the film industry and opportunities available to New Mexico residents in the film and television industry.

NMFO hosted the annual Film and Media Educational Summit at CNM in Albuquerque. Cabinet Secretary of New Mexico Higher Education Dr. Barbara Damron gave a high energy and informational keynote address where she highlighted Governor Martinez's vision of creating a more cohesive higher education system. The event was hosted to over 70 educators, industry professionals and students. From this event, the NMFO created a one-minute promotional video, highlighting the panels.

NMFO revamped the Internship program, an on-going program is designed to allow student / freshman filmmakers the opportunity to have exposure to the inner workings of the NMFO as well as giving them exposure to the 25-30% film tax incentive program. Since the re-introduction of the program, ten students have successfully cycled through the internship program.

Additionally, the NMFO hosted cast, vendor and crew screenings of *The Scorch Trials*, *Batman vs. Superman* and *Independence Day Resurgence* with over 200 attendees at each screening.

The division director and senior staff members continue to present and speak at government and industry-related events and organizations statewide as part of local outreach. In addition, NMFO elevated the social and informational outreach efforts by streamlining NMFO's website, Facebook, Twitter, LinkedIn, Constant Contact and bi-monthly newsletter.

Requests 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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Administrative Services, New Mexico Economic Development Department, Joseph M. Montoya Building, 1100 Saint Francis Drive, Santa Fe, New Mexico 87505-4147.

State of New Mexico Economic Development Department

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Investment in State General Fund Investment Pool	\$ 58,437,879
Due from federal government	73,681
Due from other state agencies	-
Capital assets, net	<u>66,712</u>
 Total assets	 <u><u>\$ 58,578,272</u></u>
LIABILITIES	
Accounts payable	\$ 1,887,127
Accrued payroll	127,103
Other liabilities	48,649
Due to State General Fund Investment Pool	78,407
Due to State General Fund	243,321
Compensated absences payable:	
Expected to be paid within one year	<u>146,638</u>
 Total liabilities	 2,531,245
NET POSITION	
Net investment in capital assets	66,712
Restricted	56,213,859
Unrestricted (deficit)	<u>(233,544)</u>
 Total net position	 <u>56,047,027</u>
 Total liabilities and net position	 <u><u>\$ 58,578,272</u></u>

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

State of New Mexico Economic Development Department

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Economic Development	\$ 15,451,849	\$ -	\$ -	\$ -	\$ (15,451,849)
Film	753,112	-	-	-	(753,112)
Program support	1,819,686	-	-	-	(1,819,686)
Other initiatives	5,914,636	-	379,329	-	(5,535,307)
Total governmental activities	\$ 23,939,283	\$ -	\$ 379,329	\$ -	(23,559,954)

General revenues (expenses)

Other revenue:

State General Fund appropriations	15,040,665
Severance tax bond proceeds	4,646,576
Other financing sources	10,599,700
Other financing sources	1,400,000
Transfers in	5,000,000
Transfers out - reversions to State General Fund FY16	(243,321)

Total general revenues and transfers 36,443,620

Change in net position

12,883,666

Net position, beginning

43,163,361

Net position, ending

\$ 56,047,027

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

State of New Mexico Economic Development Department

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	18900, 38400 & 93100 General Fund	63800 JTIP Fund	Major 02800 Capital Projects Fund
ASSETS			
Investment in State General Fund			
Investment Pool	\$ 36,456,325	\$ 16,333,727	\$ -
Due from Federal government	-	-	-
Due from other State Agencies	-	-	-
Due from other funds	-	-	-
Other	-	-	-
Total assets	<u>\$ 36,456,325</u>	<u>\$ 16,333,727</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 629,579	\$ 1,179,581	\$ -
Accrued payroll	127,103	-	-
Other liabilities	20,040	28,609	-
Unearned revenue	-	-	-
Due to State General Fund			
Investment Pool	-	-	78,407
Due to State General Fund	234,822	-	8,499
Total liabilities	1,011,544	1,208,190	86,906
FUND BALANCES			
Restricted	35,444,781	15,125,537	-
Unassigned (deficit)	-	-	(86,906)
Total fund balances (deficit)	<u>35,444,781</u>	<u>15,125,537</u>	<u>(86,906)</u>
Total liabilities and fund balance	<u>\$ 36,456,325</u>	<u>\$ 16,333,727</u>	<u>\$ -</u>

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

Funds

89200 STB Capital Projects Fund	29500 Federal Programs	02300 Revolving Loan Community Development Fund	20530 ISO 9000 Fund	Total
\$ 683,903	\$ 4,880,148	\$ 81,068	\$ 2,708	\$ 58,437,879
-	73,681	-	-	73,681
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 683,903</u>	<u>\$ 4,953,829</u>	<u>\$ 81,068</u>	<u>\$ 2,708</u>	<u>\$ 58,511,560</u>
\$ 51,299	\$ 26,668	\$ -	\$ -	\$ 1,887,127
-	-	-	-	127,103
-	-	-	-	48,649
-	73,681	-	-	73,681
-	-	-	-	78,407
-	-	-	-	243,321
51,299	100,349	-	-	2,458,288
632,604	4,853,480	81,068	2,708	56,140,178
-	-	-	-	(86,906)
<u>632,604</u>	<u>4,853,480</u>	<u>81,068</u>	<u>2,708</u>	<u>56,053,272</u>
<u>\$ 683,903</u>	<u>\$ 4,953,829</u>	<u>\$ 81,068</u>	<u>\$ 2,708</u>	<u>\$ 58,511,560</u>

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

State of New Mexico Economic Development Department

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

June 30, 2016

Total Fund Balance - Governmental Funds (Governmental Funds Balance Sheet)	\$ 56,053,272
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Amount of change in federal program earned revenue recorded within the government-wide financial statements level due to cash receipt 60 days after year end, recognized as revenue on the Statements of Activities in the current year whereas recognized as revenue on the Statement of Revenues, Expenditures, and Changes in Fund Balances in the following year	73,681
Capital assets and compensated absences payable used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Capital assets total acquisition value	193,616
Total accumulated depreciation	<u>(126,904)</u>
Total capital assets, net	66,712
Compensated absences payable	<u>(146,638)</u>
Net position of governmental activities (Statement of Net Position)	<u>\$ 56,047,027</u>

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

State of New Mexico Economic Development Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

Year Ended June 30, 2016

	18900, 38400 & 93100 General Fund	63800 JTIP Fund	Major 02800 Capital Projects Fund
Revenues			
Federal	\$ -	\$ -	\$ -
Other revenue	-	-	-
Total revenues	-	-	-
Expenditures			
Current:			
Personal services and benefits	3,695,107	-	-
Contractual services	8,483,694	84,852	-
Other	512,228	5,241,138	-
Capital outlay	105	-	-
Federal - direct	-	-	-
Federal - passthrough	-	-	-
Total expenditures	12,691,134	5,325,990	-
Excess (deficiency) of revenue over expenditures	(12,691,134)	(5,325,990)	-
Other Financing Sources (Uses)			
State General Fund appropriations	9,040,665	6,000,000	-
Other financing sources	10,599,700	-	-
Other financing sources	-	-	-
Transfers out - reversions to State General Fund FY16	(234,822)	-	(8,499)
Severance tax bond proceeds	-	-	-
Transfers in (out) - other	-	-	-
Total other financing sources (uses)	19,405,543	6,000,000	(8,499)
Net change in fund balances	6,714,409	674,010	(8,499)
Beginning fund balance	28,730,372	14,451,527	(78,407)
Ending fund balance	<u>\$ 35,444,781</u>	<u>\$ 15,125,537</u>	<u>\$ (86,906)</u>

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

Funds				
89200 STB Capital Projects Fund	29500 Federal Programs	02300 Revolving Loan Community Development Fund	20530 ISO 9000 Fund	Total
\$ -	\$ 305,649	\$ -	\$ -	\$ 305,649
-	-	-	-	-
-	305,649	-	-	305,649
-	-	-	-	3,695,107
-	276,022	-	-	8,844,568
5,462,467	176,147	-	-	11,391,980
-	-	-	-	105
-	-	-	-	-
-	-	-	-	-
<u>5,462,467</u>	<u>452,169</u>	<u>-</u>	<u>-</u>	<u>23,931,760</u>
(5,462,467)	(146,520)	-	-	(23,626,111)
-	-	-	-	15,040,665
-	-	-	-	10,599,700
1,400,000	-	-	-	1,400,000
-	-	-	-	(243,321)
4,646,576	-	-	-	4,646,576
-	5,000,000	-	-	5,000,000
<u>6,046,576</u>	<u>5,000,000</u>	<u>-</u>	<u>-</u>	<u>36,443,620</u>
584,109	4,853,480	-	-	12,817,509
48,495	-	81,068	2,708	43,235,763
<u>\$ 632,604</u>	<u>\$ 4,853,480</u>	<u>\$ 81,068</u>	<u>\$ 2,708</u>	<u>\$ 56,053,272</u>

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

State of New Mexico Economic Development Department

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2016

Net Changes in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ 12,817,509

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

Amount of change in federal program earned revenue accrued within the government-wide financial statements based on cash receipt 60 days after year end; therefore recognized as revenue on the Statements of Activities in the current year whereas recognized as unearned revenue on the governmental financial statements 73,681

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

Capital assets -
Depreciation expense (20,122)

Net increase in compensated absence balance not recorded in governmental funds 12,598

Change in net position of governmental activities
(Statement of Activities) \$ 12,883,666

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

State of New Mexico Economic Development Department

**STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL
GENERAL FUND - FUND 18900
ALL APPROPRIATIONS**

Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General fund appropriation	\$ 7,494,900	\$ 7,438,000	\$ 7,440,665	\$ 2,665
Other appropriations	38,150,000	38,150,000	-	(38,150,000)
Federal	-	-	-	-
Other financing sources	10,600,000	10,600,000	10,599,700	(300)
Other revenue	1,600,000	1,600,000	1,600,000	-
Total revenues	\$ 57,844,900	\$ 57,788,000	19,640,365	\$ (38,147,635)
Expenditures				
Personal services and benefits	3,904,800	3,811,900	3,695,107	116,793
Contract services	41,101,500	41,312,452	8,483,694	32,828,758
Other - special	1,600,000	1,600,000	-	1,600,000
Other	738,600	563,648	512,228	51,420
Total expenditures	\$ 47,344,900	\$ 47,288,000	12,691,029	\$ 34,596,971
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget)			6,949,336	
GAAP basis reconciliation				
Reversions - General Fund			(234,822)	
Other			(105)	
Prior year bills paid with current year funds			-	
Net change in fund balance			\$ 6,714,409	

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

State of New Mexico Economic Development Department

**STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL
JOB INCENTIVE TRAINING PROGRAM - FUND 63800
ALL APPROPRIATIONS**

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	9,315,600	9,351,600	6,000,000	(3,351,600)
Federal grants	-	-	-	-
Other financing sources	-	-	-	-
Other revenue	-	-	-	-
Total revenues	<u>\$ 9,315,600</u>	<u>\$ 9,351,600</u>	6,000,000	<u>\$ (3,351,600)</u>
Expenditures				
Current				
Personal services and benefits	-	-	-	-
Contractual services	-	100,000	84,852	15,148
Other costs	9,315,600	9,251,600	5,241,138	4,010,462
Total expenditures	<u>\$ 9,315,600</u>	<u>\$ 9,351,600</u>	5,325,990	<u>\$ 4,025,610</u>
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			674,010	
GAAP basis reconciliation				
Timing differences due to accounts payable			-	
Net change in fund balance			<u>\$ 674,010</u>	

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

State of New Mexico Economic Development Department

**STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL
FEDERAL PROGRAMS - FUND 29500**

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	-	-	-	-
Federal grants	-	1,754,124	305,649	(1,448,475)
Other financing sources	-	-	-	-
Other revenue	-	-	-	-
Total revenues	\$ -	\$ 1,754,124	305,649	\$ (1,448,475)
Expenditures				
Personal services and benefits	-	-	-	-
Contractual services	-	1,487,856	276,022	1,211,834
Other costs	-	266,268	176,147	90,121
Total expenditures	\$ -	\$ 1,754,124	452,169	\$ 1,301,955
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			(146,520)	
Transfers in - other			5,000,000	
GAAP basis reconciliation Reversions			-	
Net change in fund balance			\$ 4,853,480	

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

State of New Mexico Economic Development Department

**STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL
REVOLVING LOAN COMMUNITY DEVELOPMENT - FUND 02300**

Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	-	-	-	-
Federal grants	-	-	-	-
Other financing sources	-	-	-	-
Other revenue	-	-	-	-
Total revenues	\$ -	\$ -	-	\$ -
Expenditures				
Personal services and benefits	-	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total expenditures	\$ -	\$ -	-	\$ -
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			-	
GAAP basis reconciliation				
Reversions			-	
Net change in fund balance			\$ -	

This fund was not budgeted due to expected minimal activity.

Inactive funds with no activity continue to be presented in these financial statements since they still legally exist with the State of New Mexico.

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

State of New Mexico Economic Development Department

**STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL
SPECIAL APPROPRIATION – CAPITAL OUTLAY
GENERAL FUND 93100**

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	-	-	-	-
Federal grants	-	-	-	-
Other financing sources	-	-	-	-
Other revenue	1,600,000	1,600,000	1,600,000	-
Total revenues	\$ 1,600,000	\$ 1,600,000	1,600,000	\$ -
Expenditures				
Current				
Personal services and benefits	-	-	-	-
Contractual services	1,600,000	1,600,000	-	1,600,000
Other costs	-	-	-	-
Total expenditures	\$ 1,600,000	\$ 1,600,000	-	\$ 1,600,000
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			1,600,000	
GAAP basis reconciliation				
Timing differences due to accounts payable			-	
Net change in fund balance			\$ 1,600,000	

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

State of New Mexico Economic Development Department

**STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL
ISO 9000 - FUND 20530**

Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	-	-	-	-
Federal grants	-	-	-	-
Other financing sources	-	-	-	-
Other revenue	-	-	-	-
Total revenues	\$ -	\$ -	-	\$ -
Expenditures				
Personal services and benefits	-	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total expenditures	\$ -	\$ -	-	\$ -
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			-	
GAAP basis reconciliation				
Reversions			-	
Net change in fund balance			\$ -	

This fund was not budgeted due to expected minimal activity.

Inactive funds with no activity continue to be presented in these financial statements since they still legally exist with the State of New Mexico.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A - DEFINITION OF REPORTING ENTITY

The reporting entity is the Economic Development Department (the Department) of the State of New Mexico. The chief executive of the Department is the Secretary, who is appointed by the Governor of New Mexico and is a member of the Governor's Cabinet. The Department is a part of the executive branch of the primary government (the State of New Mexico) and these financial statements include all funds, account groups and activities over which the Department Secretary has oversight responsibility and which are controlled by or dependent on the Department. Control or dependence is determined by criteria such as budget adoption, taxing authority, funding and appointment of the respective government board. Using these criteria, no entities qualify for inclusion in these financial statements as component units of the Department.

The Department was established by the Economic Development Department Act, effective July 1, 1983, and as amended in Laws of 1991, Senate Bill 228 enacted by the legislature of the State of New Mexico. The purposes of the Department are as follows:

- Provide a coordinated statewide perspective with regard to economic development activities.
- Provide a database for local and regional economic development groups and serve as a comprehensive source of information and assistance to businesses wishing to locate or expand in New Mexico.
- Positively encourage new economic enterprises to locate in New Mexico and assist existing businesses to expand.
- Monitor the progress of state supported economic development activities and prepare annual reports of such activities, their status and their impact.
- Create and encourage methods designed to provide rapid economic diversification development that will create new employment opportunities for the citizens of the State, including the issuance of grants and loans to municipalities and counties for economic enhancement projects.
- Provide for technology commercialization projects as an incentive to industry locating or expanding in the State.
- Support technology transfer programs.
- Promote New Mexico as a technology state.
- Promote and market federal and state technology commercialization programs.
- Develop and implement enhanced statewide procurement programs.
- Provide support and assistance in the creation and operation of development finance mechanisms, such as business development corporations and industrial and agricultural finance authorities, in order to ensure capital availability for business expansion and economic diversification.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE A - DEFINITION OF REPORTING ENTITY - CONTINUED

Office of the Secretary

The Secretary is empowered to organize the Department and its divisions and may transfer or merge functions between divisions in the interest of efficiency and economy. The Administrative Services Division provides overall support.

Administrative Services Division

The Director of the Administrative Services Division is responsible to the Secretary to provide administrative support to all divisions and top-level managers. This division is responsible for the data processing, financial systems, budget, accounting, purchasing, personnel, financial reporting, and federal grant functions for the other following divisions:

Economic Development Division. To provide a coordinated statewide perspective with regard to economic development activities. To serve as a comprehensive source of information and assistance to businesses to expand and encourage economic enterprises in New Mexico.

Office of the Secretary/ASD Division: Provides services for the Department and is involved directly in state recruitment, expansion and retention efforts of private businesses. The public information office provides media relations, web support and printing services to the department. The marketing and research group provides website research, economic analysis, graphic design, content for brochures and other collateral materials, strategic planning and performance tracking for each of the programs within the Department. The administrative services division provides information technology management, and financial support for the Department, the New Mexico Border Authority and Office of Military Base Planning. The Office of Business Advocacy helps companies navigate state government by providing assistance with regulatory, intergovernmental and public policy issues adversely affecting business in New Mexico. Human Resource services are also housed in the Office of the Secretary/ASD. Primary services includes budget and financial support for the agency in addition to HR, payroll, insurance, management of contracts and leases, IT, marketing and public information services, etc. In addition, ASD provides this support to the administratively attached agencies: the New Mexico Border Authority and the Office of Military Base Planning and Support.

New Mexico Film Division. To promote and facilitate motion picture production in New Mexico; and to make better use of the State's resources for film, video and other media.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Principles of Accounting

The financial statements for the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

3. Financial Reporting Entity

The chief executive of the Department is the Secretary, who is appointed by the Governor of New Mexico and is a member of the Governor's Cabinet. The Department is a component unit of the executive branch and these financial statements include all funds, account groups and activities over which the Department Secretary has oversight responsibility.

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). Even though the Department Secretary is appointed by the Governor, the Department Secretary has decision making authority, the power to designate management, and the responsibility to significantly influence operations and primary accountability for fiscal matters.

In accordance with the criteria set forth in GASB 14, 39 and 61 for determining component units, the Department does not have any component units.

The Department is responsible for the fair presentation of the accompanying financial statements in conformity with generally accepted accounting principles. The Department has prepared required supplementary information titled Management's Discussion and Analysis (MD&A), which precedes the basic financial statements. The Department's significant accounting policies are described below.

4. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements. The new reporting model focus is on either the Department as a whole, or major individual funds (within the fund financial statements). In the government-wide Statement of Net position, both the governmental and business-type activities 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 net position of the Department consist of assets, deferred outflows of resources, liabilities and deferred inflows of resources, the residual is net position. Funds fiduciary in nature are excluded from the government-wide statements and fund statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Government-Wide and Fund Financial Statements - Continued

The government-wide Statement of Activities reflects both the gross and net costs that are being supported by general government revenues. Amounts reported as program revenues include: 1) charges for services; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating, and capital grants. The program revenues must be directly associated with the function. The Department has only one function (General Government). The primary function of the Department is to facilitate the creation, retention, and expansion of jobs in New Mexico.

The net cost (by function) is normally covered by general revenues (taxes, intergovernmental revenues, interest income, etc.). Historically, the previous model did not summarize or present net cost by function or activity. The Department does not currently employ indirect cost allocation systems.

This government-wide focus is more on the sustainability of the Department as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are similar to the financial statements presented in the previous accounting model with the emphasis on the major funds.

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

Due to the change from modified accrual on the fund level financial statements and full accrual method of accounting used in preparation of the government wide financial statements, certain reconciling items can create negative unrestricted net position on the government wide financial statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Basis of Presentation – Fund Accounting

The financial transactions of the Department are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements. GASB 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined.

The Department classified all of its funds as major funds which are General Fund (SHARE Fund 18900), Job Training Incentive Program (JTIP) (SHARE Fund 63800), Federal Programs (SHARE Fund 29500), Capital Project Fund (SHARE Fund 02800), STB Capital Project Fund (89200) and Revolving Loan Community Development Fund (SHARE Fund 02300), based on the financial activity in these funds. In FY12, the Department additionally classified the ISO 9000 Fund (SHARE Fund 20530) as major.

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 report a summary of sources and uses of available spendable resources during a period.

Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

General Fund - The General Fund is the general operating fund of the Department and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is funded primarily through appropriations from the State of New Mexico General Fund (SHARE Fund 18900). The General Fund is a reverting fund for operations only. All other appropriations including JTIP and LEDA included in the General Fund are non-reverting and restricted by enabling legislation.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Basis of Presentation – Fund Accounting - Continued

Special Revenue Funds. The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Sources of revenue are primarily special appropriations of State, Federal and local Governments and private grants and revenues generated by various activities of the Department.

JTIP – to provide quick-response classroom and JTIP training to furnish qualified manpower resources for new or expanding industries and non-retail service sector business in New Mexico, created by 21-19-11, NMSA 1978. This is a non-reverting fund (SHARE Fund 63800).

Federal Programs – to separately track federal money that is flowing through the Department. This fund was first utilized midway through the FY15. This is a non-reverting fund. (SHARE Fund 29500).

ISO9000 Registration Fee Revenue – in agreement with New Mexico Manufacturing Extension Partnership, the New Mexico Economic Development Department receives registration fee revenue which originates and is charged for ISO9000 courses. The agency receives a portion of this revenue for each business that successfully completes the course (SHARE Fund 20530). This is a non-reverting fund.

Revolving Loan Community Development – to account for the Community Development Assistance Revolving Loan Fund created by Chapter 299, Laws of 1983. Low-interest loans are made to political subdivisions of New Mexico for the construction or implementation of projects encouraging the expansion of industry within the political subdivisions. This is a non-reverting fund (SHARE Fund 02300). All outstanding loans were repaid prior to June 30, 2016.

Capital Projects Funds

The Capital Projects Fund accounts for the acquisition and construction of major capital facilities and other capital projects in the State of New Mexico. This fund was created by Laws of 2003, Chapter 429, Section 31. Unspent funds will revert upon individual project completion (SHARE Fund 02800). One of the Capital Projects Funds has a deficit fund balance of \$78,407 as of June 30, 2016. The deficit is attributable to the Department reverting remaining balance of two special capital outlay appropriations that expired in fiscal year 2012. The Department never received an anticipated extension for the two expired special capital outlay appropriations.

The Severance Tax Bonds Capital Projects Fund was established at the beginning of FY12 to track capital projects funded by Severance Tax Bonds. Unspent funds will revert upon individual project completion (SHARE Fund 89200).

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus. Under the accrual basis, revenues are recorded when earned and expenses are recorded at the time liabilities or obligations are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts taxes, grants, and appropriations. On an accrual basis, revenue from gross receipts taxes is recognized in the fiscal year for which the taxes are collected. Revenue from appropriations is recognized in the fiscal year for which the taxes are collected. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. All significant interfund transactions have been eliminated.

In applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to Governmental Accounting Standards Board Statement No. 33 (GASB 33), *Accounting and Financial Reporting for Nonexchange Transactions*, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred inflows of resources by the recipient.

The Department follows the Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which codifies preexisting authoritative guidance from all sources into GASB standards and edits such standards for the government environment as appropriate.

The Department follows GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 introduced a fundamental change to the reporting of elements that make up a statement of financial position. Deferred outflows of resources consumed and deferred inflows of resources received are now included in the elements that make up a statement of financial net position and GASB 63 introduced the term *net position* for reporting the residual of all elements in a statement of financial net position. The statement of financial net position of the Department at June 30, 2016 conforms to the presentation requirements of GASB 63.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Measurement Focus and Basis of Accounting - Continued

The Department follows GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* changes the classification of various financial statement balances including several more common type transactions for presentation as assets and liabilities to deferred outflows and inflows of resources. Any unearned revenue for federal or state grants whereas eligibility requirements have not been met are classified as deferred inflows of resources under this standard. There were no deferred inflows or outflows of resources to separately report at June 30, 2016.

The Department implemented Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurements and Application* (GASB 72), which establishes fair value standards for certain investments held by governmental entities. GASB 72 requires certain assets and liabilities to be measured at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 is effective for periods beginning after June 15, 2015. The Department had no assets or liabilities to separately measure or disclose at fair value at June 30, 2016.

The Department engages in federal grant agreement programs commonly referred to as "reimbursement type" programs. These programs require that the recipient (the Department) must incur allowable costs as defined by the agreement types in order to draw down funds against the particular project. This is the principal eligibility requirement for the recognition of the revenue. Upon incurring an allowable cost, the Department simultaneously recognizes a receivable and revenue in the amount of the expenditures incurred. All other eligibility requirements or grants, as applicable, must also be satisfied.

Unreimbursed state and federal grants associated with current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues are considered to be measurable and available only when cash is received by the Department.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Budgets and Budgetary Accounting

The Department prepares budgets for its governmental funds, which are subject to approval by the New Mexico Department of Finance and Administration (DFA), based upon the appropriations made by the State Legislature. Budgets are controlled at the appropriation unit level (personal services, employee benefits, etc.), and amendments affecting a category are approved by DFA and the Legislative Finance Committee (LFC). Expenditures may not exceed appropriations at this level.

The unexpended balances of the State General Fund appropriation to the Department are to be reverted to the State General Fund at the end of each fiscal year. The Department also receives funding from various special and supplemental appropriations. The language of a particular appropriation determines when it lapses and whether or not unexpended balances revert to the State General Fund. The capital projects funds are multi-year appropriations that do not lapse at year-end and have not been budgeted for on an annual basis.

The Department follows these procedures in establishing the budgetary data reflected in the financial statements for the agency:

Per the General Appropriation Act, 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. Those accounts payable that do not get paid timely must be paid out of the 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. Legal budgetary control for expenditures and encumbrances is by category of the appropriation unit.

8. Interest in State General Fund Investment Pool

The Authority has an interest in the State General Fund Investment Pool (SGFIP) to include internal pooled investments measured at amortized cost on deposit with the State Treasurer.

9. Interest Rate Risk

The New Mexico State Treasurer's Office has an investment policy that limits investments 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Federal Grants Receivable

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

Determining the amount of expenditures reimbursable by the federal government, in some cases, requires management to estimate allowable costs to be charged to the federal government. As a result of this and other issues, management provides an allowance for potential contractual allowances for federal revenue. Any changes in these estimates are recorded in the period that the estimate is changed. During fiscal year 2016, there were no estimated unallowable costs allowed for or charged to any federal grants.

11. Unearned Revenue

Unearned revenue represents a liability for the Governmental Funds. Unearned revenue is used to account for (1) amounts received from federal grants in advance of expenditures occurring, whereas certain eligibility requirements (other than time) have not yet been met.

12. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State General Fund Investment Pool is not rated for credit risk.

The Department has deposits, as defined in the Schedule of Individual Deposit Accounts, of \$58,359,472 with the Office of the State Treasurer in the State General Fund Investment Pool.

Detail of pledge collateral specific to the Department 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.

13. 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 activities.

14. Due to State General Fund (Reversions)

Reversions to the State General Fund by the Department are based on the definitions of both reverting and non-reverting funds. Reversions are calculated by applying the percentage of reverting fund (to total budget for the category) to the amount unexpended for the category at fiscal year-end.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Other Revenues and Transfers

Other revenues consist primarily of the State's portion of reimbursements for previous overpayments of benefits.

Transfers in from (out to) other state agencies and governmental units are recorded as other financing sources (uses).

16. Reverting Funds

Reverting funds are all funds that are not identified by law as non-reverting.

17. Non-Reverting Funds

All funds which are either appropriated to or earned by the Department, and by law or statute are not required to be reverted to the State Treasury upon completion of a fiscal period or project, are non-reverting funds.

i) Non-General Fund sources must be reverted to the State General Fund upon completion of the Project. (Section 6-5-10 NMSA 1978)

ii) Grant funds from any governmental source, such as federal or state, direct or indirect, do not revert to the State General Fund unless specifically identified in the grant contract or appropriation law. Instead, any overdrawn grant funds must be reverted to the granting agency.

Unexpended and unencumbered cash balances of certain funds revert to the State General Fund at year-end. For certain funds, cash recoveries during the fiscal year from stale dated warrants and prior year reimbursements are also due to the State General Fund. Amounts due to the State General Fund for the year ending June 30, 2016, were paid before September 30, 2016. Reversions are not budgeted.

18. Revenues and Expenses

Under the modified accrual basis of accounting, 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), regardless of when the related cash flows take place.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Revenues and Expenses - Continued

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

When an expense is incurred that meets the requirements of both restricted and unrestricted resources, the Department will first apply it to available restricted net position.

19. Program Revenues

Program revenues are revenues that originate from the program or from parties other than the government's taxpayers or citizens as a whole, and reduce the expenses of the function that has to be financed by general revenues. Revenues of this type can originate from a governmental source, but the proceeds are a charge for services or products produced by a government agency, where that agency is considered a vendor within the market place. Additionally, program revenues are fees charged by the government agency that are used to support a specific operation of that governmental unit.

20. Capital Assets

Capital assets consist of tangible personal property having a value equal to or greater than \$5,000 and an estimated useful life greater than one year, per Section 12-6-10 NMSA 1978. Capital assets are recorded at historical cost. Capital assets are depreciated over their estimated useful life using the straight-line mid-month convention.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the following estimated useful lives in years:

Equipment	5
Furniture and fixtures	10
Data processing and software	5
Buildings and structures	20

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

21. Accrued Compensated Absences

The Department's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits.

The maximum accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is lost. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to the above maximums.

Accrued Sick Leave. Employees who have over 600 hours of accumulated sick leave can receive payment for the hours over 600 up to 120 hours, on July 1 and January 1 of each year. However, the sick leave will be paid at 50% of the employee's regular hourly wage.

At retirement, employees may receive 50% payment for up to 400 hours for the hours over 600 of accumulated sick leave. Therefore, the only sick leave which has been accrued represents the hours earned at June 30, 2016, over 600. Expenditures for accumulated sick pay for hours under 600 will be recognized as employees take such absences.

22. Fund Balances and Net Position

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

22. Fund Balances and Net Position - Continued

The Department's fund balances represent: 1) Restricted Purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; 2) Committed Purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; 3) Assigned Purposes, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted or committed. The fund balances of the Department for the current year are represented only as Restricted and Unrestricted. A summary of the nature and purpose of these reserves by fund type at June 30, 2016, follows:

Spendable – Restricted. This reserve consists of liquid assets (generated from fee revenues and bond proceeds), which have third-party (statutory or granting agency) limitation on their use.

Restricted for Jobs In-Plant Training – Fund balance restricted for purposes of providing quick-response classroom and in-plant training to furnish qualified manpower resources for new or expanding industries and non-retail service sector business.

Restricted for Capital Projects – Fund balances are restricted for future cost associated with the acquisition and construction of major capital facilities and other capital projects in the State of New Mexico.

Restricted for Revolving Loan Community Development – Fund balances are restricted for purposes of making low-interest loans to political subdivisions of New Mexico for construction or implementation of projects encouraging the expansion of industry within the political subdivision.

Net Position. The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets – is intended to reflect the portion of net position which is associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Department does not have any related debt.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

22. Fund Balances and Net Position - Continued

Restricted Net Position – are liquid assets (generated from fee revenues and bond proceeds), which have third-party (statutory, bond covenant or granting agency) limitations on their use. Such restrictions are legally enforceable.

23. Severance Tax Bond Proceeds

Severance tax bond proceeds were allocated by the State Legislature to the agency to administer disbursements to the project recipients, and the Department is not obligated in any manner for the related indebtedness. The Department recognizes severance tax bond proceeds as revenue when draw requests are issued for reimbursement from severance tax bond proceeds of project expenditures made by the Department. The capital assets associated with the project funded by the severance tax bonds are excluded from the Department's capital assets list; upon project completion, the Department does not retain titles to these assets, but rather passes them through to the beneficiaries (other New Mexico State agencies and local governments) of these projects.

24. State Small Business Credit Initiative

The State Small Business Credit Initiative (SSBCI) Act of 2010 is a Federal program administered by the US Department of the Treasury (US Treasury) to strengthen state programs that support private financing to small businesses and small manufactures. Funds transferred under SSBCI are not considered a grant or other type of federal assistance subject to single audit under Uniform Guidance. Section 3003(c)(5) of the Act specifically states that funds transferred to states, territories, and eligible municipalities under the SSBCI program are not considered federal assistance for the purposes of Subtitle V and Title 31 of the United States Code. The SSBCI allows states, territories and eligible municipalities the opportunity to build upon or create successful models for state small business programs, including Capital Access Programs (CAPs), and Other Credit Support Programs (OCSPs) such as collateral support programs, loan participation programs, loan guarantee programs, and venture capital programs. The allocation commitment awarded to the Department as the eligible state agency was \$13,168,350 which expires on March 31, 2017. The first tranche of the allocation was received in 2013 and the second tranche in 2014. The final tranche was received in the amount of \$4,477,239 as program income and passed through to the New Mexico Mortgage Finance Authority (NMMFA) recorded as expenditure by the Department during the year ended June 30, 2015. The Department received \$5,000,000 back from the NMMFA in 2016 which the NMMFA determined it could not spend to meet eligibility requirements or time restrictions. The \$5,000,000 was recorded by the Department as Other Transfers In Within Fund 29500.

25. Cost Allocation

The Department does not employ indirect cost allocation in the financial statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

26. GASB 68 Implementation

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State of New Mexico (the State) has continued to apply the standard for the fiscal year ending June 30, 2016.

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). Overall, total pension liability exceeds Plan net position resulting in a Net pension liability. The State has determined the State's share of the net pension liability to be a liability of the State as a whole, rather than any agency or department of the State and will not be reported in the department or agency level financial statements of the State.

27. Subsequent Events

Management evaluated subsequent events through November 30, 2016, the date the financial statements were available to be issued. Two items were identified for disclosure. \$5,000,000 of the SSBCI money received back (recorded within Fund 29500) from the NMMFA was invested on July 14, 2016 in a private equity investment fund (See Note R), and the State of New Mexico has "swept" back several million dollars of the Department's interest in SGFIP after the October 2016 special session, no other events or transactions occurring after June 30, 2016 but prior to November 30, 2016, that provided additional evidence about conditions that existed at June 30, 2016, have been recognized in the financial statements for the year ended June 30, 2016.

NOTE C - STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED

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 SGIP.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a "business unit by fund" level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled "Current State Diagnostic of Cash Control," also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE C - STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED - CONTINUED

By state statute, the New Mexico Department of Finance & Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Various efforts have been made to reconcile the SGFIP from July 2006 to January 2013. Through correspondence, DFA provided an update through October 2015 as follows. The Financial Control Division (FCD) of DFA now has an operational model that effectively compares statewide claims against the SGFIP and resources held at the State Treasurer's Office. This process has been operational and has been reviewed by General Fund auditors, DFA and CAFR auditors.

During 2016, FCD was able to reinstate \$100 million of the amount that recorded as a loss contingency. Additionally for fiscal year 2016, FCD is able to assert the following points:

1. The calculated difference between resources maintained by STO and the agency claims has remained stable and 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 reconciles its deposits, vouchers and other general ledger activity with the DFA to SHARE on a periodic basis to ensure proper posting.

Investment balances at June 30, 2016, consisted of the following:

Deposits with State General Fund Investment Pool	
- governmental activities	\$ 58,437,879
Due to State General Fund Investment Pool	<u>(78,407)</u>
	<u>\$ 58,359,472</u>

NOTE D - DUE TO/FROM OTHER STATE AGENCIES

Transactions that occur among state agencies under legislative mandate, exchange transactions and other situations are accounted for in the financial statements which make up the amounts due from other state agencies. There were no amounts due from or due to other State agencies at June 30, 2016.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE E - DUE TO/FROM STATE GENERAL FUND

NMEDD Fund	Purpose	Affiliate Name	Affiliate Fund	Due To	Due From
18900	Reversion of unreserved. Undesignated balance in the operation fund at 06/30/2016	Dept. of Finance & Administration	39401	\$ 234,822	\$ -
18900	Reversion of MainStreet special appropriations in the operation fund at 06/30/2016	Dept. of Finance & Administration	39401	<u>8,499</u>	<u>-</u>
Total				<u>\$ 243,321</u>	<u>\$ -</u>

NOTE F - RELATED PARTY TRANSACTIONS

The Department is responsible for providing administrative support to the agencies it is associated with: New Mexico Spaceport Authority, New Mexico Border Authority and New Mexico Military Base Planning and Support. However, the Department makes no executive decisions on behalf of these independent agencies and, therefore, is not accountable for any consequences, positive or otherwise, related to those decisions.

The Department is responsible for managing General Fund Appropriation, in addition to one Severance Tax bond, on behalf of New Mexico Spaceport Authority (NMSA). The funds were originally appropriated to the Department prior to the creation of NMSA. New Mexico Spaceport Development Act, Laws of 2005, Chapter 128, actually established NMSA. However, since the capital appropriation, along with the Severance Tax bond, were already authorized under the Department, the agency continued to manage the appropriations for NMSA. The Department's only responsibility is to settle invoices from various contractors of the capital projects undertaken by NMSA as received. The capital projects carried out for NMSA are not considered assets of the Department; accordingly, the Department bears no liability, associated with those projects.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE G - CAPITAL ASSETS

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets:				
Equipment and machinery	\$ 167,544	\$ -	\$ -	\$ 167,544
Building and structures	26,072	-	-	26,072
Total capital assets	193,616	-	-	193,616
Accumulated depreciation:				
Equipment and machinery	98,115	17,515	-	115,630
Buildings and structures	8,667	2,607	-	11,274
Total accumulated depreciation	106,782	20,122	-	126,904
Net capital assets	\$ 86,834	\$ (20,122)	\$ -	\$ 66,712

Current year depreciation expense of \$20,122 was allocated entirely to the Department's function in the government-wide statement of activities.

Land, buildings, furniture, fixtures, software, and automobiles used by the Department are not included in these financial statements, as those assets are included in the financial statements of the General Services Department.

Depreciation expense was charged to functions as follows:

Economic development	\$ 12,274
Film	604
Program support	1,610
Other initiatives	5,634
Total	\$ 20,122

NOTE H - COMPENSATED ABSENCES

Qualified employees are entitled to accumulate annual leave according to a graduated leave schedule of 80 to 160 hours per year, depending upon length of service and employee hire date. A maximum of 30 working days (240 hours) or such accumulated annual leave may be carried forward into the beginning of the calendar year and any excess leave is lost. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours. Accumulated annual leave is expected to be liquidated with expendable available financial resources.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE H - COMPENSATED ABSENCES - CONTINUED

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave that an employee may accumulate. Once per fiscal year in either January or July, employees may elect to be paid up to 50% of accrued sick leave in excess of 600 up to 720 hours, but not to exceed 120 hours. In the case of retiring employees, up to 200 net hours in excess of 600 hour minimum limit can be paid. All sick leave balances from 600 to 720 hours have been recorded at 50% of the employee's current hourly rate in the general long-term debt account group, including those amounts paid in July because no expendable financial resources are available as of the balance sheet date to liquidate the liability.

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

	Balance June 30, 2015	Increase	Decrease	Balance June 30, 2016	Amounts Due Within One Year
Compensated absences	\$ 159,236	\$ 136,217	\$ (148,815)	\$ 146,638	\$ 146,638

The Department's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits. The general fund liquidates all compensated absence balances.

NOTE I - REVERSIONS

Current year reversions for the Department's General Fund as of June 30, 2016 were as follows:

Appropriation Year	Fund Type	SHARE System Fund	Reversion
Laws of 2015	General Fund	18900	\$ 234,822

In accordance with statute Section 6-5-10(A) NMSA 1978, all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert. The balance of \$9,065 is payable at June 30, 2016, and due by September 30, 2016. This payable may be adjusted within 45 days of the release of this audit by the New Mexico Office of the State Auditor. The Department pays the reversions payable during fiscal year 2016.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE J - PENSION PLAN - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

1. Plan Description

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

GASB 68 - Financial Reporting and Disclosure for Multiple Employer Cost Sharing Pensions Plans by Employers: 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, 2015. 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.

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

2. Funding Policy

Plan members are required to contribute 8.92% of their gross salary. The Department is required to contribute 16.99% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department's contributions to PERA for the fiscal years ending June 30, 2016, 2015, and 2014 were \$441,403, \$443,405, and \$383,498, respectively, which equal the amount of the required contributions for each fiscal year.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE K - POST EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN

1. Plan Description

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

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

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

2. Funding Policy

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2.000% of each participating employee's annual salary; each participating employee was required to contribute 1.000% of their salary.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE K - POST EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN - CONTINUED

2. Funding Policy - Continued

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

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY17	2.000%	1.000%

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

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

The Department's contributions to the RHCA for the years ended June 30, 2016, 2015, and 2014 were \$51,961, \$52,215, and \$46,314, respectively, which equal the required contributions for each year.

NOTE L - OPERATING LEASE COMMITMENT

The Department is committed under lease for some of the Department's office equipment and office space in several locations throughout New Mexico. These leases are considered for accounting purposes to be operating leases and are not reflected in the Department's capital assets. Lease expenditures, which include event and exhibition costs in addition to operating leases, for the year ended June 30, 2016, amounted to \$256,875.

The following is a schedule by years of future minimum lease payments required under operating leases that have initial or remaining non-cancelable terms in excess of one year as of June 30, 2016.

2017	\$ 40,223
2018	27,504
2019	27,096
2020	7,845
2021	-
Thereafter	-
	\$ 102,668

NOTE M - RISK MANAGEMENT

The Department, as a State Agency defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the General Services Department of the State of New Mexico. The Office of Risk Management Division pays annual premiums for coverage provided in the following areas:

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE M - RISK MANAGEMENT - CONTINUED

- Liability and civil rights protection for claims made by others against the State of New Mexico;
- Coverage to protect the State of New Mexico's property and assets; and
- Fringe benefit coverage for State of New Mexico employees.

In the case of civil actions or claims against the Department for financial damages, the Department's certificate of insurance with Risk Management does not cover claims for back wages, but does cover civil rights claims for other compensatory damages.

There are no pending or threatened legal proceedings involving material matters to which the Department is a party.

The Department had no significant reductions in insurance coverage from prior year. In the fiscal years ended June 30, 2016, 2015, and 2014, there were no settlements that exceeded insurance coverage.

NOTE N – CONTINGENCIES – GRANTOR AGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which have been disallowed by the grantor agencies cannot be determined at this time although the Department expects such amounts, if any, to be immaterial.

NOTE O – SCHEDULE OF CAPITAL OUTLAY APPROPRIATIONS

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE P - RESTRICTED FUND BALANCES

	General Fund	Major Special Revenue Funds	Major Capital Projects Funds
Fund Balances:			
Restricted for:			
In-Plant Training (Section 21-19-11 NMSA 1978)	\$ -	\$ 15,125,537	\$ -
Revolving Loan Community Development (Laws of 1983, Ch. 299)	-	81,068	-
Assigned:			
ISO 9000	-	2,708	-
Non-reverting by enabling legislation (See enabling law citation at Notes A and B5)	35,444,781	-	-
STB Capital Projects	-	-	11,132,604
Federal grants and state small business program	-	-	4,853,480
General Fund - Fund 93100	1,600,000	-	-
Unassigned (deficit)	-	-	(86,906)
	<u>\$ 25,170,538</u>	<u>\$ 15,209,313</u>	<u>\$ 15,899,178</u>
Total fund balances			

The amount of net position restricted by enabling legislation is \$25,170,538 as reported above. The Department expects to eliminate the negative fund balance in major capital funds through future funding or fund transfer.

NOTE Q - FUND BALANCE DEFICIT

SHARE FUND # 02800 FUND DEFICIT EXPLANATION:

Fund 02800 is in a deficit fund balance of \$86,906 as of June 30, 2016. The fund was a reverting fund used for special capital outlay appropriations that expired in 2012. The primary activities accounted for in this fund were revenues and expenditures for Media Production Education and Training for a \$250,000 appropriation and Albuquerque Eclipse Aviation for a \$2,000,000 appropriation. Unspent funds for the first appropriation of \$58,228 were reverted in 2014 and unspent funds for the second appropriation of \$20,000 were reverted in 2015. Unspent funds of \$8,499 were reverted in 2016. Use of the fund ended on June 30, 2012.

NOTE R – INVESTMENT IN APPROVED STATE SMALL BUSINESS PROGRAM

During September 2015, the State of New Mexico proposed to re-allocate the remaining SSBCI funding of \$5,000,000 to a new venture capital micro fund-of-funds program to provide vital support to New Mexico’s growing number of seed-and early-stage technology startups. During February 2016, the Department received notice from the US Secretary for Small Business, Community Development and Housing that the U.S. Treasury amended the Allocation Agreement to: (1) add one new venture capital program, the New Mexico Micro Fund-of-Funds (MFOF); (2) reapportion Allocated Funds among the Approved State Programs as follows: \$8,956,240 to the New Mexico Loan Participation Program (LPP) and \$4,212,110 to the MFOF; and (3) add Sun Mountain Capital Advisors, LLC (SMC) as the entity that administers specific aspects of the MFOF.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**NOTE R – INVESTMENT IN APPROVED STATE SMALL BUSINESS PROGRAM –
CONTINUED**

The definition an “Approved State Program” means the New Mexico SSBCI Loan Participation Program (LPP) and the New Mexico Micro Fund-of-Funds (MFOF), approved by the U.S. Treasury as eligible for Federal contributions to, or for the account of, the State of New Mexico program.

During May 2016, the Department executed an agreement as a Class B Limited Partner Investor in New Mexico Catalyst Fund LP, a Delaware limited partnership (the Partnership) pursuant to the Amended and Restated Limited Partnership Agreement of the Partnership (Partnership Agreement).

Pursuant to Section 3.1.2 of the Partnership Agreement, the Investor hereby notifies the General Partner, Sun Mountain Capital Partners, LLC, that it desires to make a \$5,000,000 Capital Contribution to the Partnership equal to all of its Commitment at one time (See Note B.27).

NOTE S - NEW ACCOUNTING STANDARDS

GASB 74

Governmental Accounting Standards Board Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* is intended to enhance the decision-usefulness of the financial reports of OPEB plans, their value for assessing accountability and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. GASB 74 basically parallels GASB 67 and replaces Statements No. 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB 74 requires enhanced note disclosures and is effective for financial statements for fiscal years beginning after June 15, 2016 (FY17).

GASB 75

Governmental Accounting Standards Board Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. GASB 75 is effective for fiscal years beginning after June 15, 2017 (FY18).

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE S - NEW ACCOUNTING STANDARDS - CONTINUED

GASB 76

Governmental Accounting Standards Board Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 (FY17), and should be applied retroactively. Earlier application is permitted.

GASB 82

Governmental Accounting Standards Board Statement No. 82 *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

GASB 82 is effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

NOTE T - REVISION OF FINANCIAL STATEMENTS FOR LEDA APPROPRIATION

Subsequent to the release of the financial statements by the Office of the State Auditor, it was determined that appropriations of \$10,500,000 restricted for Local Economic Development Act (LEDA) purposes had been incorrectly identified as funds forwarded to the Department as Severance Tax Bond proceeds. The financial statements are revised to report \$10,500,000 as Other Financing Sources in fund 18900 (General Fund) and remove \$10,500,000 as severance tax bond proceeds in fund 89200 (STB Capital Projects fund). The fund balances for fund 18900 and fund 89200 are increased and decreased by \$10,500,000 respectively. The corresponding budget schedules for fund 18900 and 89200 were changed to reflect this revision. Certain other severance tax bond proceeds were received for LEDA projects during the year and are correctly reported on schedule 16. That schedule did not change as a result of the revision.

SUPPLEMENTAL INFORMATION

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
ECONOMIC DEVELOPMENT - FUND 18900 P512
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ 4,767,300	\$ 4,740,400	\$ 4,739,965	\$ (435)
Other appropriations	-	-	-	-
Federal funds	-	-	-	-
Other financing sources	-	-	10,500,000	10,500,000
Other revenue	-	-	-	-
Total revenues	<u>\$ 4,767,300</u>	<u>\$ 4,740,400</u>	15,239,965	<u>\$ 10,499,565</u>
Expenditures				
Personal services and benefits	\$ 1,786,200	\$ 1,759,300	\$ 1,691,528	\$ 67,772
Contract services	2,550,200	2,700,200	2,679,313	20,887
Other	430,900	280,900	255,930	24,970
Total budgeted expenditures	<u>\$ 4,767,300</u>	<u>\$ 4,740,400</u>	4,626,771	<u>\$ 113,629</u>
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			10,613,194	
GAAP basis reconciliation				
Reversion to State General Fund			(113,629)	
Prior year bills paid and miscellaneous			-	
Net change in fund balance			<u>\$ 10,499,565</u>	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
FILM DIVISION - FUND 18900 P514
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ 758,500	\$ 758,500	\$ 758,500	\$ -
Other appropriations	-	-	-	-
Federal funds	-	-	-	-
Other financing sources	-	-	-	-
Other revenue	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ 758,500</u>	<u>\$ 758,500</u>	758,500	<u>\$ -</u>
Expenditures				
Personal services and benefits	\$ 552,400	\$ 516,400	\$ 513,658	\$ 2,742
Contract services	99,000	159,952	159,916	36
Other	107,100	82,148	80,950	1,198
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total budgeted expenditures	<u>\$ 758,500</u>	<u>\$ 758,500</u>	754,524	<u>\$ 3,976</u>
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget				
			3,976	
GAAP basis reconciliation				
Reversion to State General Fund			<u>(3,976)</u>	
Net change in fund balance				
			<u>\$ -</u>	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
PROGRAM SUPPORT - FUND 18900 P526
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ 1,969,100	\$ 1,939,100	\$ 1,942,200	\$ 3,100
Other appropriations	-	-	-	-
Federal funds	-	-	-	-
Other financing sources	-	-	-	-
Other revenue	-	-	-	-
Total revenues	<u>\$ 1,969,100</u>	<u>\$ 1,939,100</u>	1,942,200	<u>\$ 3,100</u>
Expenditures				
Personal services and benefits	\$ 1,566,200	\$ 1,536,200	\$ 1,489,920	\$ 46,280
Contract services	202,300	202,300	158,042	44,258
Other	200,600	200,600	174,271	26,329
Total budgeted expenditures	<u>\$ 1,969,100</u>	<u>\$ 1,939,100</u>	1,822,233	<u>\$ 116,867</u>
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			119,967	
GAAP basis reconciliation Reversion to State General Fund			<u>(117,217)</u>	
Net change in fund balance			<u>\$ 2,750</u>	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
INDUSTRIAL DEVELOPMENT - FUND 63800 P512
MAJOR GOVERNMENTAL FUND - JOB INCENTIVE TRAINING PROGRAM FUND**

Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		Actual	Variance From
	<u>Original</u>	<u>Final</u>	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	7,315,600	2,000,000	2,000,000	-
Federal funds	-	-	-	-
Other financing sources	-	-	-	-
Other revenue	-	-	-	-
Total revenues	<u>\$ 7,315,600</u>	<u>\$ 2,000,000</u>	2,000,000	<u>\$ -</u>
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	-	100,000	32,388	67,612
Other	7,315,600	1,900,000	1,900,000	-
Total budgeted expenditures	<u>\$ 7,315,600</u>	<u>\$ 2,000,000</u>	<u>1,932,388</u>	<u>\$ 67,612</u>
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			67,612	
GAAP basis reconciliation				
Reversion to State General Fund			-	
Net change in fund balance			<u>\$ 67,612</u>	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
SPECIAL MULTI-YEAR APPROPRIATION - LEDA PROGRAM
ENDS JUNE 30, 2016 - FUND 18900 Z40524
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	-	-	-	-
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	-	-	-	-
Other	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total budgeted expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget				
			-	
GAAP basis reconciliation				
Reversion to State General Fund			<u>-</u>	
Net change in fund balance				
			<u>\$ -</u>	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
SPECIAL MULTI-YEAR APPROPRIATION - LEDA PROGRAM
ENDS JUNE 30, 2016 - FUND 18900 Z40533
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	-	-	-	-
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	4,758,749	4,758,749	4,758,749	-
Other	-	-	-	-
Total budgeted expenditures	<u>\$ 4,758,749</u>	<u>\$ 4,758,749</u>	<u>4,758,749</u>	<u>\$ -</u>
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			(4,758,749)	
GAAP basis reconciliation				
Reversion to State General Fund			-	
Net change in fund balance			<u>\$ (4,758,749)</u>	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
SPECIAL MULTI-YEAR APPROPRIATION - FEASIBILITY STUDY RAIL LINE
ENDS JUNE 30, 2016 - FUND 18900 Z40535
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	-	-	-	-
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	-	-	-	-
Other	-	-	-	-
Total budgeted expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			-	
GAAP basis reconciliation				
Reversion to State General Fund			-	
Net change in fund balance			<u>\$ -</u>	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
SPECIAL APPROPRIATION - COUNTY FOOD INFRASTRUCTURE
ENDS JUNE 30, 2016 - FUND 18900 Z80903
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	-	-	-	-
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	100,000	100,000	99,700	(300)
Total revenues	\$ -	\$ 100,000	99,700	\$ (300)
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	100,000	100,000	99,700	300
Other	-	-	-	-
Total budgeted expenditures	\$ 100,000	\$ 100,000	99,700	\$ 300
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			-	
GAAP basis reconciliation Reversion to State General Fund			-	
Net change in fund balance			\$ -	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
SPECIAL MULTI-YEAR APPROPRIATION
ENDS JUNE 30, 2016 - FUND 63800 Z40544
MAJOR GOVERNMENTAL FUND - JOB INCENTIVE TRAINING PROGRAM**

Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	7,315,600	7,315,600	4,000,000	(3,315,600)
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	<u>\$ 7,315,600</u>	<u>\$ 7,315,600</u>	4,000,000	<u>\$ (3,315,600)</u>
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	-	100,000	52,464	47,536
Other	7,315,600	7,215,600	3,341,138	3,774,762
Total budgeted expenditures	<u>\$ 7,315,600</u>	<u>\$ 7,315,600</u>	3,393,602	<u>\$ 3,822,298</u>
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			606,398	
GAAP basis reconciliation				
Reversion to State General Fund			-	
Net change in fund balance			<u>\$ 606,398</u>	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
SPECIAL MULTI-YEAR APPROPRIATION - LEDA PROGRAM
ENDS JUNE 30, 2016 - FUND 18900 Z50521
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	37,500,000	37,500,000	-	(37,500,000)
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	\$ 37,500,000	\$ 37,500,000	-	\$ (37,500,000)
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	37,500,000	37,500,000	-	37,500,000
Other	-	-	-	-
Total budgeted expenditures	\$ 37,500,000	\$ 37,500,000	-	\$ 37,500,000
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			-	
GAAP basis reconciliation				
Reversion to State General Fund			-	
Net change in fund balance			\$ -	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
SPECIAL MULTI-YEAR APPROPRIATION - TECHNOLOGY AND RESEARCH
ENDS JUNE 30, 2016 - FUND 18900 Z50522
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	300,000	300,000	-	(300,000)
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	\$ 300,000	\$ 300,000	-	\$ (300,000)
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	300,000	300,000	293,053	6,947
Other	-	-	-	-
Total budgeted expenditures	\$ 300,000	\$ 300,000	293,053	\$ 6,947
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			(293,053)	
GAAP basis reconciliation				
Reversion to State General Fund			-	
Net change in fund balance			\$ (293,053)	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
SPECIAL MULTI-YEAR APPROPRIATION - MAINSTREET PROGRAM
ENDS JUNE 30, 2016 - FUND 18900 Z50523
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	350,000	350,000	-	(350,000)
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	<u>\$ 350,000</u>	<u>\$ 350,000</u>	-	<u>\$ (350,000)</u>
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	335,000	335,000	334,921	79
Other	15,000	15,000	1,077	13,923
Total budgeted expenditures	<u>\$ 350,000</u>	<u>\$ 350,000</u>	<u>335,998</u>	<u>\$ 14,002</u>
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			(335,998)	
GAAP basis reconciliation				
Reversion to State General Fund			-	
Net change in fund balance			<u>\$ (335,998)</u>	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
SPECIAL MULTI-YEAR APPROPRIATION
ENDS JUNE 30, 2016 - FUND 63800 Z50525
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	-	-	-	-
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	-	-	-	-
Other	-	-	-	-
Total budgeted expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			-	
GAAP basis reconciliation				
Reversion to State General Fund			-	
Net change in fund balance			<u>\$ -</u>	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES - MAJOR CAPITAL PROJECTS FUND
BUDGET AND ACTUAL
SEVERANCE TAX BOND CAPITAL PROJECTS FUND - FUND 02800**

Year Ended June 30, 2016

	Life to Date Budgeted Amount	FY 2016 Amount Budgetary Basis	Life to Date Actual Amount (Budgetary Basis)	Variance Over (Under)
Revenues				
Capital outlay appropriations	\$ -	\$ -	\$ -	\$ -
Severance tax bonds proceeds	-	-	-	-
Total revenues	-	-	-	-
Expenditures				
Personal services and benefits	-	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenue over expenditures	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
GAAP basis reconciliation				
Reversions		<u>(8,499)</u>		
Net change in fund balance		<u><u>\$ (8,499)</u></u>		

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES - MAJOR CAPITAL PROJECTS FUND
BUDGET AND ACTUAL
LOCAL ECONOMIC DEVELOPMENT AND
SEVERANCE TAX BOND CAPITAL PROJECTS FUND - FUND 89200**

Year Ended June 30, 2016

	Life to Date Budgeted Amount	FY 2016 Amount Budgetary Basis	Life to Date Actual Amount (Budgetary Basis)	Variance Over (Under)
Revenues				
Federal funds	\$ -	\$ -	\$ -	\$ -
Severance Tax Bonds - Other financing sources	17,400,000	6,046,576	6,046,576	(11,353,424)
Interest	-	-	-	-
Total revenues	17,400,000	6,046,576	6,046,576	(11,353,424)
Expenditures				
Personal services and benefits	-	-	-	-
Contractual services	-	-	-	-
Other costs	17,400,000	5,462,467	5,462,467	(11,937,533)
Total expenditures	17,400,000	5,462,467	5,462,467	(11,937,533)
Excess (deficiency) of revenue over expenditures	\$ -	584,109	\$ 584,109	
GAAP basis reconciliation				
Due from other state agencies		-		
Reversions		-		
Net change in fund balance		\$ 584,109		

State of New Mexico Economic Development Department

**SCHEDULE OF MULTIPLE-YEAR CAPITAL PROJECTS FUNDED BY LOCAL
ECONOMIC DEVELOPMENT ACT
AND SEVERANCE TAX CAPITAL OUTLAY APPROPRIATIONS FROM THE STATE**

Year Ended June 30, 2016

<u>Project Description</u>	<u>Appropriation ID</u>	<u>Expiration</u>	<u>Amount Appropriated</u>	<u>Current Year Expenditures</u>	<u>Current Year Reversions</u>	<u>Prior Year Incurred Balance</u>	<u>Balance as of June 30, 2016</u>
<u>Local Economic Development Act (LEDA)</u>							
Albuquerque Eclipse Aviation		6/30/2019	\$ 400,000	\$ 316,852	\$ -	\$ -	\$ 83,148
Total LEDA Appropriations			400,000	316,852	-	-	83,148
<u>Severance Tax Bond Proceeds</u>							
Economic Development MainStreet Projects	STB11A 11-1294	6/30/2016	1,000,000	42,527	8,499	948,974	-
Economic Development MainStreet Projects	STB13A 13-1252	6/30/2017	500,000	82,236	-	400,244	17,520
Economic Development LEDA Projects	STB14SA 14-1347	6/30/2018	5,000,000	5,000,000	-	-	-
Economic Development LEDA Projects	STB15SA 15-0230	6/30/2019	10,000,000	-	-	-	10,000,000
Economic Development MainStreet Projects	STB15SA 15-0231	6/30/2019	500,000	20,851	-	-	479,149
Total Severance Tax Bonds			17,000,000	5,145,614	8,499	1,349,218	10,496,669
Total Capital Projects			\$ 17,400,000	\$ 5,462,466	\$ 8,499	\$ 1,349,218	\$ 10,579,817

State of New Mexico Economic Development Department

SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS

Year Ended June 30, 2016

Fund Name	Fund Number	Fund Type	Depository	Unadjusted Balances	Adjustments/ Reconciling Items	Reconciled Balance per Books
Cash with State General Fund Investment Pool (with SHARE fund numbers):						
General Fund	18900	Operating	State Treasury	\$ 24,304,684	\$ -	\$ 24,304,684
In-Plant Training Fund	63800	Special revenue	State Treasury	16,333,727	-	16,333,727
Capital Projects Fund	89200	Capital project	State Treasury	11,183,903	-	11,183,903
Revolving Loan Community Development	02300	Special revenue	State Treasury	81,068	-	81,068
Technology Enterprise Fund	38400 *	Special revenue	State Treasury	51,641	-	51,641
ISO 9000	20530	Special revenue	State Treasury	2,708	-	2,708
Federal Programs	29500	Special revenue	State Treasury	4,880,148	-	4,880,148
General Fund	93100 *	Special revenue	State Treasury	1,600,000	-	1,600,000
Capital Projects Fund	02800	Capital project	State Treasury	(78,407)	-	(78,407)
Total Governmental Cash with State General Fund				<u>\$ 58,359,472</u>	<u>\$ -</u>	<u>\$ 58,359,472</u>
State of net position balance						\$ 58,437,879
Less overdrafts						<u>(78,407)</u>
						<u>\$ 58,359,472</u>

*Reported in General Fund 18900

State of New Mexico Economic Development Department

MEMORANDA OF UNDERSTANDING

Year Ended June 30, 2016

<u>Participant</u>	<u>Party Responsible for Operations</u>	<u>Description of Services</u>	<u>Beginning Date</u>	<u>Ending Date</u>	<u>Total Estimated Amount</u>	<u>Amount Department Contributed During FY16</u>	<u>Audit Responsibility</u>	<u>Agency Reporting Revenue & Expense</u>
Artesia MainStreet/City of Artesia	Artesia MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Artesia	City of Artesia
DowntownABQ MainStreet/City of ABQ	DowntownABQ MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Albuquerque	City of Albuquerque
Belen MainStreet/City of Belen	Belen MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Belen	City of Belen
Carlsbad MainStreet/City of Carlsbad	Carlsbad MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Carlsbad	City of Carlsbad
Clayton MainStreet/Town of Clayton	Clayton MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	Town of Clayton	Town of Clayton
Clovis MainStreet/City of Clovis	Clovis MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Clovis	City of Clovis
Corrales MainStreet/Village of Corrales	Corrales MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	Village of Corrales	Village of Corrales
Deming MainStreet/City of Deming	Deming MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Deming	City of Deming
Farmington MainStreet/City of Farmington	Farmington MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Farmington	City of Farmington
Grants MainStreet/City of Grants	Grants MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Grants	City of Grants
Harding County MainStreet/Harding County	Harding County MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	Harding County	Harding County

State of New Mexico Economic Development Department

MEMORANDA OF UNDERSTANDING - CONTINUED

Year Ended June 30, 2016

<u>Participant</u>	<u>Party Responsible for Operations</u>	<u>Description of Services</u>	<u>Beginning Date</u>	<u>Ending Date</u>	<u>Total Estimated Amount</u>	<u>Amount Department Contributed During FY16</u>	<u>Audit Responsibility</u>	<u>Agency Reporting Revenue & Expense</u>
Historic Bridge South Valley MainStreet/Bernalillo County	Historic Bridge South Valley MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	Bernalillo County	Bernalillo County
Las Cruces MainStreet/City of Las Cruces	Las Cruces MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Las Cruces	City of Las Cruces
Las Vegas MainStreet/City of Las Vegas		Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Las Vegas	City of Las Vegas
Los Alamos MainStreet/County of Los Alamos	Los Alamos MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	County of Los Alamos	County of Los Alamos
Lovington MainStreet/City of Lovington	Lovington MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Lovington	City of Lovington
Nob Hill MainStreet/City of ABQ	Nob Hill MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Albuquerque	City of Albuquerque
Portales MainStreet/City of Portales	Portales MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Portales	City of Portales
Raton MainStreet/City of Raton	Raton MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Raton	City of Raton
Roswell MainStreet/City of Roswell	Roswell MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Roswell	City of Roswell
MainStreet de Las Vegas/City of Las Vegas	Las Vegas MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Las Vegas	City of Las Vegas
Silver City MainStreet/Town of Silver City	Silver City MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	Town of Silver City	Town of Silver City
T or C MainStreet/City of T or C	T or C MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Truth or Consequences	City of Truth or Consequences
Tucumcari MainStreet/City of Tucumcari	Tucumcari MainStreet	Participation Agreement between municipality/local MainStreet program/EDD	7/1/15	7/1/17	-	-	City of Tucumcari	City of Tucumcari

STATE OF NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT

**SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING \$60,000
(EXCLUDING GRT) (UNAUDITED)**

As of June 30, 2016

RFB#/RFP#	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the procurement documentation, of <u>ALL</u> Vendor(s) that responded	In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A	Brief Description of the Scope of Work
	Statewide Price Agreeemnt	POD Inc	475,619.96		5971 Jefferson NE Ste. 101, Albuquerque, NM 87109	Y	N	Project Implementation services for the DIASCMP Project.
	Statewide Price Agreeemnt	POD Inc	572,380.06		5971 Jefferson NE Ste. 101, Albuquerque, NM 87109	Y	N	Project management services for the DIASCMP Project.
50-419-15-01906	RFP	Junior Achievement of NM Inc.	75,000.00		4700 Lincoln Rd NE Albuquerque, NM	Y	N	Representing 5 to 6 classrooms at each level K-12th, for placement of community volunteer led financial literacy
N/A	Sole Source Procurement	New Mexico Development Corporation	\$1,180,000	\$0.00	New Mexico Development Corporation, 1720 Louisiana Blvd NE Ste. 312, Albuquerque, NM 87110	Y	N	FY16 Strategic Plan and Sales Marketing Plan for EDD.

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

State of New Mexico Economic Development Department
and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the budgetary comparisons of the general fund and special revenue funds of the State of New Mexico Economic Development Department (the Department) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents. We have also audited the budgetary comparison schedules of the component funds of the general fund and capital projects funds, presented as supplementary information and have issued our report thereon dated November 30, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that 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 certain deficiencies in internal control that we consider to be significant deficiencies as described in the accompanying schedule of findings and responses as items 2014-001 and 2016-002.

Compliance and Other Matters

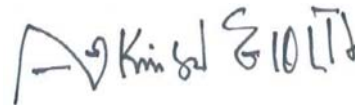
As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* as described in the accompanying schedule of findings and responses as item 2016-001.

The Department's Response to Findings

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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 results 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, appearing to read 'Atkinson & Co. Ltd.', with a stylized flourish on the left side.

Atkinson & Co. Ltd.

Albuquerque, New Mexico
November 30, 2016

SUMMARY OF AUDIT FINDINGS

June 30, 2016

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

INTERNAL CONTROL OVER FINANCIAL REPORTING

Material weaknesses identified? No

Significant deficiencies identified not considered
to be material weaknesses? Yes

COMPLIANCE AND OTHER MATTERS

Noncompliance material to the financial statements noted? No

STATUS OF PRIOR YEAR FINDINGS

2014-001 Lack of Effective Year-End Accrual Procedures (Significant Deficiency) - Repeated and Modified

CURRENT YEAR FINDINGS

Financial Statement Findings Required by *Government Auditing Standards*

2014-001 Lack of Effective Year-End Accrual Procedures (Significant Deficiency)

2016-001 Purchase Order Authorizations (Control and Compliance Deficiency)

2016-002 Revision of Financial Statements for LEDA Transaction (Significant Deficiency)

State Audit Rule Compliance Findings

None

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

June 30, 2016

CURRENT YEAR AUDIT FINDINGS

Financial Statement Findings Required by *Government Auditing Standards*

2014-001 Lack of Effective Year-End Accrual Procedures (Significant Deficiency)

CONDITION

Draw down billings totaling \$75,225 relating to the STB accrued bond receivables in FY15 were not properly reversed as of June, 30, 2016, although the cash was received within two months after July 1, 2015. In addition, the June 2016 quarterly billing for one federal grant was not billed timely after year-end resulting in the corresponding federal cash receipt in the amount of \$73,681 on September 12, 2016 which resulted in a difference between federal program revenues on the Statement of Activities (full accrual) and the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (modified accrual) by that amount. Progress was noted with respect to severance tax bond expenditure and related lost-reimbursement billing accrual procedures.

CRITERIA

Chapters 6-5-1 through 6-5-6, NMSA 1978, require all state agencies to implement internal accounting controls designed to prevent accounting errors related to financial statement matters.

CAUSE

Lack of failure of controls surrounding proper monitoring and timely billing and/or accrual of revenues. The Department did not monitor and reconcile revenue and billing activity to the general ledger in a timely manner with DFA before year-end cut off.

EFFECT

Receivables, unearned revenue and revenues related to STB bonds were overstated as of June 30, 2016. Also, federal June 2016 quarterly billing was signed on August 16, 2016 (late billing) which caused the cash receipt to be late.

RECOMMENDATION

We continue to recommend that the Department require all program managers to submit all invoices received from vendors and subcontractors relating to the current fiscal year-end in a timely manner each month-end which would allow the Administrative Service Department to have adequate time to submit accounts payable invoices to DFA and create draw down requests before year-end to ensure proper accrual.

MANAGEMENT'S RESPONSE

Over the past 5 years, there has been a 90% turnover within the financial staff to include 4 CFOs. The Audit Bureau Chief in ASD left the Agency in FY16 and due to budget constraints, the position was reclassified to a junior accountant, who is still in training. Also, while this is a repeat finding, it is not a repeat finding on the same programs cited in the previous audit.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES - CONTINUED

June 30, 2016

CURRENT YEAR AUDIT FINDINGS - CONTINUED

Financial Statement Findings Required by *Government Auditing Standards*

**2014-001 Lack of Effective Year-End Accrual Procedures (Significant Deficiency)
- Continued**

CORRECTIVE ACTION PLAN

On-the-job training will be requested from the DFA CAFR unit for the ASD financial staff. Written responsibilities among financial staff will be better defined to ensure continuity of functions when personnel leave.

CONTACT

Marilu Casillas, ASD Director/CFO
505-476-2192

2016-001 Purchase Order Authorizations (Control and Compliance Deficiency)

CONDITION

In connection with our review of procurements, we reviewed certain invoices and purchase orders. Management identified 20 vendor purchases totaling about \$44,000 out of all cash disbursements made by the Department during 2016, totaling approximately \$24 million, where the approval date (appropriate authorization) on the purchase orders were after the date of the invoice submitted by the vendor for payment for goods or services ordered and received. The disbursements appeared reasonable and necessary.

CRITERIA

NMSA 1978, Section 13-1-157 of the procurement code for goods, as well as the procurement policy of the Institute which covers both goods and services, specifies that a purchase order is required before the service or product is received. NMAC 1.4.1.94.D states that on or after July 1, 2015, only certified chief procurement officers (CPO) may, among other things, issue purchase orders and authorize small purchases; and approve procurement pursuant to the State Procurement Code.

CAUSE

The purchaser did not initiate the purchase order prior to the date the purchase was made and therefore did not follow internal control policy and procurement law.

EFFECT

An identified 20 out of all cash disbursements made during the year were out of compliance with the Department's procurement policy. The protections of the purchase order control procedure were not applied before the incurring of an expenditure which increases the possibility of an inappropriate expenditure. The Department was obligated for expenditures without proper approval.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES - CONTINUED

June 30, 2016

CURRENT YEAR AUDIT FINDINGS - CONTINUED

Financial Statement Findings Required by *Government Auditing Standards*

2016-001 Purchase Order Authorizations (Control And Compliance Deficiency) - Continued

RECOMMENDATION

Purchase orders should be obtained in advance of execution of the actual purchase for all department procurements. Procurement procedures should be followed in all situations.

MANAGEMENT RESPONSE

The majority of the violations that occurred were in the International Trade Office. Because of the vetting process that the Program Manager has to go through to select qualified Vendors to attend the Events abroad, this often leaves a small window prior to the event. Prior to being able to issue a Purchase Request, the Vendors have to be established and approved by the Department of Financial Administration (DFA) and issued a Vendor Number. The turnaround time for this process had been 5-7 business days; however due to shortage of DFA personnel for many months in FY16, the average turnaround time went to almost 2 months from the time DFA received the Vendor Request.

CORRECTIVE ACTION PLAN

The CFO will meet with the Deputy Secretary and Division Chiefs, in addition to sending out written notices, reemphasizing the importance of having an Approved Purchase Order in place, prior to having any services performed or purchases made. In addition, the EDD Division Chief stated that she was having her staff enroll in a Procurement Course. Timelines for submitting new Vendor forms has been changed requiring them to be submitted to ASD two months prior to date of Event.

POINT OF CONTACT

Marilu Casillas, ASD Director/CFO
505-476-2192

SCHEDULE OF AUDIT FINDINGS AND RESPONSES - CONTINUED

June 30, 2016

CURRENT YEAR AUDIT FINDINGS - CONTINUED

Financial Statement Findings Required by *Government Auditing Standards*

2016-002 Revision of Financial Statements for LEDA Transaction (Significant Deficiency)

CONDITION

As detailed in Note T, it was discovered that \$10,500,000 transferred from the New Mexico Finance Authority and restricted for Local Economic Development Act (LEDA) purposes had been incorrectly credited to the Severance Tax Bond Capital Project fund. The financials as originally issued were misstated for this transaction.

CRITERIA

NMAC 2.20.5.8 C (3) requires agencies to correctly classify transactions in their books and records.

CAUSE

The source of funds (The New Mexico Finance Authority) and unexpected nature of this receipt may have caused difficulties in accounting and classification of the transaction. Other LEDA funds were received from other sources. The nature and classification of this transaction was not fully determined by the end of the audit.

EFFECT

The financial statements were reissued to correct this transaction.

RECOMMENDATIONS

We recommend that management reaffirm its closing procedures for identification and investigation of material transfers and other funds received during the year.

MANAGEMENT'S RESPONSE

Funding for LEDA was being received by this Agency from different sources. An OPBUD4 had already been submitted and approved by DFA for this \$10.5M at the beginning of the fiscal year, 07/01/2015. This transfer of funds occurred on January 20, 2016. LEDA had also been awarded two projects through the Capital Outlay that also happened to be \$10.5M, which led to the confusion. Unfortunately, quality controls at EDD and DFA approvers did not catch the error.

CORRECTIVE ACTION PLAN

CFO and financial staff at EDD have been provided additional training to ensure no repeat.

POINT OF CONTACT:

Marilu Casillas, ASD Director/CFO
505-476-2192

State of New Mexico Economic Development Department

EXIT CONFERENCE

June 30, 2016

An exit conference was held with the Department on November 28, 2016, at the Department's offices in Santa Fe, New Mexico. In attendance were:

ECONOMIC DEVELOPMENT DEPARTMENT

Barbara Brazil	Deputy Cabinet Secretary
Marilu Casillas	ASD Director/CFO
Chris Romero	Financial Coordinator/CPO
Mary Armijo	Business Operations Specialist
Florence Velarde	Accountant
David Mathews	General Counsel

ATKINSON & CO., LTD.

Martin Mathisen, CPA, CGFM	Audit Director
Clarke Cagle, CPA, CCIFP, CGFM	Audit Director
Jenifer Getz	Senior Auditor

PREPARATION OF FINANCIAL STATEMENTS

The financial statements were prepared by the independent certified public accounting firm performing the audit with the assistance of the Department's management. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are correct and in balance. Management has reviewed and approved the financial statements.

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