

The logo for atkinson, featuring the word in a lowercase serif font with a small green dot above the letter 'i'.

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**STATE OF NEW MEXICO
ECONOMIC DEVELOPMENT
DEPARTMENT**

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

June 30, 2017

atkinson

CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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State of New Mexico Economic Development Department

OFFICIAL ROSTER

June 30, 2017

OFFICE OF THE SECRETARY

Matthew Geisel, Cabinet Secretary

Barbara Brazil, Deputy Cabinet Secretary

Ben Cloutier, Communications Director

ADMINISTRATIVE SERVICES

Marilu Casillas, ASD Director, CFO

Chris Romero, Financial Coordinator, CPO

Mary Armijo, Accountant

Ramona Gonzales, Business Operations Specialist

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

State of New Mexico Economic Development Department
and
Mr. Wayne A. Johnson
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 or EDD) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2017, and the respective changes in financial position and respective budgetary comparisons of the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison schedules for the components of the general fund and special revenue funds for the year ended June 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note B3, 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, 2017, 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, follows GASB 68, *Accounting and Financial Reporting for Pensions*, in the June 30, 2017, 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, 2017. 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 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we

obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

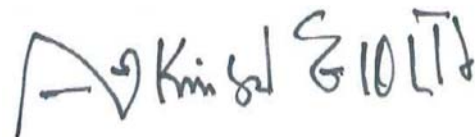
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the budgetary comparison schedules for components of the general fund, and major special revenue funds and schedule of individual deposit accounts required by Section 2.2.2 NMAC as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' and a checkmark-like shape.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
January 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2017

The State of New Mexico Economic Development Department's (the Department) 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, 2017.

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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2017

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.

Financial Analysis of the Department as a Whole

Net Position

The Department's condensed net position changed from fiscal year 2016, decreasing from \$53.2 million (restated), to \$29.3 million, which represented a 45% change.

**Detail of the Department's Condensed Net Position
as of June 30, 2017 and 2016**

	FY 2017	(As Restated) FY 2016	Amount Change	Total % Change
Governmental Activities				
Assets:				
Current assets	\$ 36,254,647	\$ 58,511,560	\$ (22,256,913)	-38%
Capital assets	46,590	66,712	(20,122)	-30%
Total assets	<u>\$ 36,301,237</u>	<u>\$ 58,578,272</u>	<u>\$ (22,277,035)</u>	-38%
Liabilities:				
Current liabilities	<u>\$ 6,986,401</u>	<u>\$ 5,403,888</u>	<u>\$ 1,582,513</u>	29%
Total liabilities	6,986,401	5,403,888	1,582,513	29%
Net position:				
Invested in capital assets	46,590	66,712	(20,122)	-30%
Restricted	29,508,654	53,341,216	(23,832,562)	-45%
Unrestricted	<u>(240,408)</u>	<u>(233,544)</u>	<u>(6,864)</u>	3%
Total net position	<u>29,314,836</u>	<u>53,174,384</u>	<u>(23,859,548)</u>	-45%
Total liabilities and net position	<u>\$ 36,301,237</u>	<u>\$ 58,578,272</u>	<u>\$ (22,277,035)</u>	-38%

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2017

Statement of Activities

The Department's change in net position for fiscal year 2017 was a decrease of \$23,859,458 (Statement of Activities). Total general and revenues from all sources for fiscal year 2017 were \$24,132,689, of which 77% is State General Fund appropriations.

Statement of Activities

	FY 2017	(As Restated) FY 2016	Amount Change	Total % Change
Governmental Activities				
Revenues:				
Federal other	\$ 914,673	\$ 379,329	\$ 535,344	141%
Total program revenues	914,673	379,329	535,344	141%
General revenues:				
State General Fund appropriations	18,564,600	15,040,665	3,523,935	23%
Total general revenues	18,564,600	15,040,665	3,523,935	23%
Total revenues	19,479,273	15,419,994	4,059,279	26%
Expenses:				
Economic development	25,689,323	26,811,926	(1,122,603)	-4%
Other sources (uses):				
Severance tax bonds proceeds	3,588,263	4,646,576	(1,058,313)	-23%
Operating financing sources	1,065,153	11,999,700	(10,934,547)	-91%
Transfers in	-	5,000,000	(5,000,000)	-100%
Investment losses	(331,444)	-	(331,444)	
Transfers out - reversions	(21,971,470)	(243,321)	(21,728,149)	8930%
Total other sources	(17,649,498)	21,402,955	(39,052,453)	-182%
Change in net position	(23,859,548)	10,011,023	(33,870,571)	-338%
Net position, beginning	53,174,384	43,163,361	10,011,023	23%
Net position, ending	<u>\$ 29,314,836</u>	<u>\$ 53,174,384</u>	<u>\$ (23,859,548)</u>	-45%

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2017

Department Overview

The Department is one of 28 cabinet level departments within the executive branch of New Mexico State Government. Founded by the 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 sector 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 FY17 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.

FY17 Program Results in Numbers

- 1,729 Total Jobs Created; 775 in rural areas of New Mexico.
- 4 Companies recruited by the Partnership (115 new jobs).
- Completed 14 Local Economic Development Act (LEDA) projects, helping to deploy \$15,845,000 to create 530 jobs. This amount was leveraged against total private investment in these projects of \$346,336,762, for a final leverage ratio of 21 to 1.
- 2,009 New Mexicans trained by JTIP for 57 participating companies at an average wage of \$17.92.
- \$28.5M in new private sector investment in MainStreet Districts and 257 building rehabilitations.
- The Film Division recruited 61 total film and media projects generating \$505.9 million in direct spending into the economy and 448,304 worker days.

Department Efficiency

In Fiscal Year 2017, EDD had nine vacant positions, three of these positions were filled leaving six vacancies as of June 30, 2017.

Since former Secretary Barela created the Historic Theaters Initiative in 2013, eight communities have received funding for preservation and digital conversion of their historic theaters and are now experiencing an increase in visitors in their local downtown commercial districts. In FY17, the Chief Theatre in Mora and the Pecos Theater in Santa Rosa received technical assistance (but not funding) through the program.

The department has certified seven incubator facilities since the program began in 2005, and continues to receive \$130,000 in recurring funding. That amount has been reduced each year since SB9 budget cuts, but each incubator continues to receive an annual allocation.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2017

Despite a lack of funding dedicated to rural commercial kitchens, communities continue to pursue and open these facilities. Las Vegas opened a kitchen at Luna Community College; and Ribera Celebrated the opening of its kitchen; both in FY17.

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 assisted in the creation of 115 jobs in FY17, and generated 63 Potential Recruitment Opportunities.

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 Economic Development Division is comprised of six teams, which contribute to the mission of the division. They are: **New Mexico MainStreet Program**, which includes the Arts & Cultural District (ACD) Program, the Frontier Communities Initiative, the Historic Theatres Initiative, the MainStreet Capital Outlay Public Infrastructure, and Community Grant Program that ties/leverages NMMS professional assistance with financing from partner funding organizations such as the McCune Charitable Foundation, The Yates Foundation, PNM Foundation and Corporate donation program, NM Gas Company, and the New Mexico Resiliency Alliance. The **Community, Business and Rural Development Team** (CBRDT), includes the Local Economic Assistance Development & Support Program (LEADS), the Business Retention & Expansion Program (BRE), the Rural Economic Development Council, and serves as the Tribal Liaison; the **Finance Development Team** (FDT) administers the \$50+ million dollar LEDA closing fund, the FUNDIT program, and the EB5 Program; the **Job Training Incentive Program** (JTIP), includes STEP UP and ISO 9000; the **Office of Science & Technology**, includes the Technology Research Collaborative (TRC); and the **Office of International Trade**.

FY17 included two additional programs, administered by this Division and funded via special appropriation. **The NM Solo Worker Program**, which was established to encourage Solo Worker job creation and increase the commercial revenue from out-of-state sources. The purpose of the program is to improve New Mexico's rural and urban economies by creating sustainable, economic-based jobs and expanding businesses owned and operated by SoloWorkers engaged in economic-based jobs. The **Rapid Workforce Training Program** will provide up to \$1.25M to New Mexico's institutions of higher education in order to quickly ramp up or expand training programs that will provide a ready-workforce within existing New Mexico employers or employers that establish operations in New Mexico and create new jobs for New Mexicans.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2017

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 57 businesses for \$12,745,140 in funding across New Mexico, which offset the cost of training 2,009 workers in newly created positions, at an average wage of \$17.92 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 LEDA Capital Outlay Closing Fund.

FUNDIT 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. Economic Development Administration, U.S. Department of Housing, NM Department of Environment, NM Energy Minerals and Natural Resources, NM Department of Tourism, NM Department of Indian Affairs, NM Department of Transportation and the NM Mortgage Finance Authority as a way to streamline the process for identifying and financing projects. In FY17, FUNDIT reviewed 21 community presentations which amounted to approximately \$94M in Project funding requests. The group identified and recommended resources and connected projects to funding opportunities with the appropriate agency. Notably, the Grant County Water Project, a previous FUNDIT applicant, received a national award for their innovative and collaborative finance development techniques from the National Development Council. The Grant County Water Project was awarded the Chairman's Award, one of the organization's top awards. The FDT has begun a program called the Rural Efficient Business Program targeted at helping rural businesses and agricultural producers reduce their energy costs. The Program is a joint effort between the Department and the NM Energy, Minerals and Natural Resources Department and is funded partly by a USDA grant. The Department will host six workshops over the next two years in rural regions of the state which will address energy and financial efficiencies.

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

The CBRDT, commonly known as "regional representatives," assists communities to build their capacity for development and 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.

LEADS 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2017

For FY17, the CBRDT processed 18 applications. All 18 were rural projects, which shared total funding of \$170,000.

In addition, the team completed four business development projects during the fiscal year, including St. Claire's Organics, New Mexico Milling, CSI Aviation, and X2bSAT.

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 28 affiliated MainStreet Districts, eight state-authorized Arts and Cultural Districts; however, no new Frontier Community projects were added due to FY17 budget cuts. During FY17, MainStreet Districts saw \$28.5 million in private sector investments and 257 building rehabilitations and the creation of 616 net 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

The Arts & Cultural District (ACD) program is administered by NMMS, and is one of the first in the nation, serving as 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 Foundation and the New Mexico Resiliency Alliance. The program utilizes place-based economic development strategies which reflect 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 the capacity to do a comprehensive MainStreet program. Community applications focus on one catalytic economic development project to receive professional assistance. Since its inception, NMMS has completed 24 Frontier Economic Development Projects in 21 rural communities. In FY17, seven communities selected in FY16 received assistance through the program in order to complete their projects. However, FY17 budget reductions did not allow for additional frontier projects during this fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2017

NM ISO 9000

The NM ISO 9000 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 the Manufacturing Extension Partnership (MEP) to provide classes to businesses wishing to obtain certification.

Office of International Trade

The Office of International Trade (OIT), was created by the legislature in 1989 to assist New Mexico companies to expand their markets overseas through the export of goods and services. Since 2011 the Office has been entirely reliant on funding through grants from the U.S Small Business Administration (SBA) under the State Trade Expansion Program (STEP).

The NM Economic Development Department has requested a \$200,000 appropriation in FY19 for OIT. The OIT will have a federal STEP grant funding gap for 10 months in the next fiscal year causing the program to idle if state funds are unavailable. Given that STEP funds are limited to trade promotion events, state funds would allow the program to engage in targeted Foreign Direct Investment (FDI) activities by leveraging trade promotion events in markets where FDI opportunities exist.

In FY17, OIT assisted over 45 New Mexico companies to participate in international and domestic trade shows, provided Export Seminars and Workshops that were attended by over 150 businesses (many of which were seeking to export their products overseas for the first time as New-to-Export companies). These activities generated over \$7 million in actual export sales and over \$5 million in projected export sales over the next two-year period. Specifically, for rural areas, this assistance generated over \$500,000 in sales for businesses including Old Wood, LLC in Las Vegas and Private Label Select, Ltd. in Taos.

Office of Science & Technology

The primary goal of the Office of Science and Technology (OST) is to facilitate, enable and encourage the startup and growth of technology-based companies to create a robust and diverse economy in New Mexico.

In order to achieve these objectives, the office facilitates operations and funding for both the Technology Research Collaborative (TRC) and the Defense Industry Adjustment Program. OST also partners with other divisions within NMEDD, New Mexico's three national laboratories, three research universities, the state's incubators and investors (e.g. the New Mexico Angels and Sun Mountain Capital), and the private sector. In FY17 the OST continued to develop programs to address challenges identified by the TRC. These programs are the New Mexico Innovation Voucher Program, New Mexico's Small Business Innovation Research Matching Program, and the Catalyst Fund. Together these efforts create a complete framework of support for companies moving from innovation to market; the OST also provides education, mentoring, and other direct assistance to New Mexico science and technology companies as they take their inventions from the lab to the market and create a business. In FY17 the OST's activities

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2017

assisted 50 companies and yielded \$40 million in available investment for start-ups. The \$48,000 Innovation Voucher Program resulted in over \$1 million of follow-on investments and the creation of 3 new jobs and 2 student internships.

The OST is also part of several cluster development initiatives such as the BioScience Authority, the New Mexico Cybersecurity Cluster, and serves on the steering committee of the New Mexico Energy Roadmap.

Defense Industry Adjustment Program

NM EDD/OST obtained a \$1.4 M grant from the Office of Economic Adjustment several years ago. 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 forced 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.

Film Division

In FY17, 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.

Another record year for production in New Mexico – NMFO had a third straight record-breaking year, injecting half a billion dollars into the economy, shattering last fiscal year's record by more than \$115 million – while hosting 52 major productions with budgets over \$1 million.

With eleven (11) major television series: (*Midnight, Texas Season 1* (NBC), *Longmire Season 6* (Netflix), *The Night Shift Season 4* (NBC), *Get Shorty Season 1* (Epix), *Monsters of God* (pilot), *The Girlfriend Experience Season 2* (Starz), *Mission Control* (CBS pilot), *Scalped* (pilot), *WACO* (Paramount network mini-series), *Better Call Saul Season 3* (AMC) and *Godless* (Netflix mini-series) and eighteen (18) features (*Logan*, *Hostiles*, *Cliffs of Freedom*, *Just Getting Started*, *Woman Walks Ahead*, *Soldado*, *12 Strong*, *Prison Break*, *Don't Let Them In*, *Fast Color*, *Will Gardner*, *Arizona*, *Furthest Witness*, *Galileo*, *Making a Killing*, *Fatal Mistakes*, *Be My Baby* and *Hyde Park*) in production with the number of worker days totaling 448,304.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2017

The NMFO continues to expand recruitment efforts by providing guidance to production companies located worldwide. In addition to general inquiries and subsequent meetings, over 176 new projects were logged by the office. Of the 176 new projects, twenty-seven (27) were major studio projects, seventeen (17) were network and cable TV series, seventy (70) were independent film projects, three (3) were commercials, two (2) were music videos, ten (10) were documentary features, fifteen (15) were short films, eight (8) were from internet studios, eight (8) were TV mini-series and sixteen (16) were major TV pilots.

Workforce Development

The Job Training Incentive Program for Film and Multimedia programs is designed to increase high-wage job opportunities, to diversify skill sets, and ultimately increase the trainee'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 FY17, eighteen (18) production companies participated with 139 qualifying residents at an average wage of \$22.91. Major participating productions include: *Hostiles*, *Villa Capri*, *T@gged Season 2*, *Soldado*, *Scalped*, *Midnight*, *Texas Season 1* (NBC pilot), *Longmire Season 6* (Netflix), *The Girlfriend Experience Season 2*, *Graves Season 2*, *The Night Shift Season 4* (NBC) and more.

Initiatives

The NMFO continues to develop and implement several local outreach and program initiatives:

- The division held its fourth annual Filmmakers Showcase at the Hispanic Cultural Center with over one hundred (100) entries. The Showcase is an annual event featuring a vast range of creative talent from New Mexicans around the state;
- The division held its annual Education summit. The mission of this event is to stimulate communication, create fresh ideas and establish lasting bonds and relationships between New Mexico's film and media industry, and higher education institutions, thus, establishing a well-defined educational environment that offers cutting edge training for today's competitive industry;
- The division co-hosted, with SONY, a crew screening of "The Magnificent Seven," with approximately 180 attendees in Albuquerque;
- NMFO created a new podcast, "NMFO Filmcast" and conducted the inaugural podcast with actor Robert Taylor;
- The Office assisted with the 2016 Balloon Fiesta Student Filmmaker Challenge, which provides student filmmakers the opportunity to develop short films / digital videos presented by Canon;
- The division held its annual Film & Media Industry Conference at the Isleta Casino & Resort with over forty (40) in and out-of-state guest speakers and panelists, over four hundred (400) registrants and over sixty (60) sponsors and vendors. This two-day conference offers New Mexico's film community unique access to panels, dynamic presentations and networking opportunities;

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2017

- NMFO participated in ESPN's Gildan Bowl at UNM with a debut screening of the new 2017 New Mexico Sizzle Reel, celebrity guest appearance from Benicio Del Toro who returned to New Mexico to film "Soldado," the follow-up to the blockbuster film "Sicario." The ESPN Gildan Bowl at UNM exceeded 30,000 attendees;
- The division held its Fourth Annual Film Liaison Summit on February 11th and 12th with over 30 Liaisons in attendance for the two-day event where Liaisons and the division gathered for informative workshops, networking and relationship building; and completed a promotional video for NMEDD's LEDA and JTIP programs.

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.

Analysis of Individual Funds

General Fund

The General Fund fund balance was drawn down through the expenditure of prior year budget funds of approximately \$5 million and the reclamation by the State of New Mexico of a previous LEDA Program award totaling \$21,550,000. There is a positive fund balance of approximately \$8,000,000 from previous awards for the Department's programs.

JTIP

JTIP fund balance increased due to FY17 appropriations that were not all awarded during the year. The JTIP fund has a fund balance of approximately \$16.5 million available for the JTIP program in the coming year.

Federal Programs

Federal expenditures exceeded the \$750,000 threshold which required a single audit to be performed for FY17. The fund balance is due mainly to the investment in the New Mexico Catalyst Fund LP. The source of the investment is the State Small Business Credit Initiative (SSBCI) program of the Federal government.

Budgetary Changes

There were no unusual changes in the budget. Available funds from prior years were budgeted in the case of the General Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2017

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, 2017

	<u>Governmental Activities</u>
ASSETS	
Investment in State General Fund Investment Pool	\$ 31,079,668
Due from federal government	506,423
Other investments	4,668,556
Capital assets, net	<u>46,590</u>
 Total assets	 <u><u>\$ 36,301,237</u></u>
LIABILITIES	
Accounts payable	\$ 6,285,364
Accrued payroll	122,701
Other liabilities	28,608
Unearned revenue	60,000
Due to State General Fund Investment Pool	308,068
Due to State General Fund	28,158
Compensated absences payable:	
Expected to be paid within one year	<u>153,502</u>
 Total liabilities	 6,986,401
NET POSITION	
Net investment in capital assets	46,590
Restricted	29,508,654
Unrestricted (deficit)	<u>(240,408)</u>
 Total net position	 <u>29,314,836</u>
 Total liabilities and net position	 <u><u>\$ 36,301,237</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, 2017

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	\$ 10,953,641	\$ -	\$ -	\$ -	\$ (10,953,641)
Film	691,760	-	-	-	(691,760)
Program support	1,646,659	-	-	-	(1,646,659)
Other initiatives	12,397,263	-	914,673	-	(11,482,590)
Total governmental activities	\$ 25,689,323	\$ -	\$ 914,673	\$ -	(24,774,650)
General revenues (expenses)					
Other revenue:					
State General Fund appropriations					18,564,600
Severance tax bond proceeds					3,588,263
Other financing sources					1,065,153
Investment losses					(331,444)
Transfers out - reversions to State General Fund FY17					(21,971,470)
Total general revenues and transfers					915,102
Change in net position					(23,859,548)
Net position, beginning, before restatement					56,047,027
Prior period restatement					(2,872,643)
Net position, beginning, after restatement					53,174,384
Net position, ending					\$ 29,314,836

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

State of New Mexico Economic Development Department

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	18900, 38400 & 93100 General Fund	63800 JTIP Fund	Major 02800 Capital Projects Fund
ASSETS			
Investment in State General Fund			
Investment Pool	\$ 9,434,452	\$ 21,310,646	\$ -
Other investments	-	-	-
Due from Federal government	-	-	-
Due from other State Agencies	-	-	-
Due from other funds	-	-	-
Other	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 9,434,452</u>	<u>\$ 21,310,646</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,197,536	\$ 4,875,343	\$ -
Accrued payroll	122,701	-	-
Other liabilities	-	28,608	-
Unearned revenue	-	-	-
Due to State General Fund			
Investment Pool	-	-	78,407
Due to State General Fund	19,659	-	8,499
	<u>1,339,896</u>	<u>4,903,951</u>	<u>86,906</u>
Total liabilities	1,339,896	4,903,951	86,906
FUND BALANCES			
Restricted	8,094,556	16,406,695	-
Unassigned (deficit)	-	-	(86,906)
	<u>8,094,556</u>	<u>16,406,695</u>	<u>(86,906)</u>
Total fund balances (deficit)	8,094,556	16,406,695	(86,906)
	<u>\$ 9,434,452</u>	<u>\$ 21,310,646</u>	<u>\$ -</u>
Total liabilities and fund balance	<u>\$ 9,434,452</u>	<u>\$ 21,310,646</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
\$ 250,794	\$ -	\$ 81,068	\$ 2,708	\$ 31,079,668
-	4,668,556	-	-	4,668,556
-	506,423	-	-	506,423
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 250,794</u>	<u>\$ 5,174,979</u>	<u>\$ 81,068</u>	<u>\$ 2,708</u>	<u>\$ 36,254,647</u>
\$ 51,299	\$ 161,186	\$ -	\$ -	\$ 6,285,364
-	-	-	-	122,701
-	-	-	-	28,608
-	301,183	-	-	301,183
-	229,661	-	-	308,068
-	-	-	-	28,158
<u>51,299</u>	<u>692,030</u>	<u>-</u>	<u>-</u>	<u>7,074,082</u>
199,495	4,482,949	81,068	2,708	29,267,471
-	-	-	-	(86,906)
<u>199,495</u>	<u>4,482,949</u>	<u>81,068</u>	<u>2,708</u>	<u>29,180,565</u>
<u>\$ 250,794</u>	<u>\$ 5,174,979</u>	<u>\$ 81,068</u>	<u>\$ 2,708</u>	<u>\$ 36,254,647</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, 2017

Total Fund Balance - Governmental Funds (Governmental Funds Balance Sheet)		\$ 29,180,565
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Due from federal government at June 30, 2017, not collected within 60 days		241,183
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>(147,026)</u>	
Total capital assets, net		46,590
Compensated absences payable		<u>(153,502)</u>
Net position of governmental activities (Statement of Net Position)		<u>\$ 29,314,836</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, 2017

	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	3,554,021	-	-
Contractual services	7,734,474	82,909	-
Other	1,989,602	7,413,290	-
Total expenditures	13,278,097	7,496,199	-
Excess (deficiency) of revenue over expenditures	(13,278,097)	(7,496,199)	-
Other Financing Sources (Uses)			
State General Fund appropriations	6,914,600	11,650,000	-
Other financing sources	750,000	-	234,742
Transfers out - reversions to State General Fund FY17	(21,736,728)	-	(234,742)
Severance tax bond proceeds	-	-	-
Investment losses	-	-	-
Total other financing sources (uses)	(14,072,128)	11,650,000	-
Net change in fund balances	(27,350,225)	4,153,801	-
Beginning fund balance, before restatement	35,444,781	15,125,537	(86,906)
Prior period restatement	-	(2,872,643)	-
Beginning fund balance, after restatement	35,444,781	12,252,894	(86,906)
Ending fund balance	\$ 8,094,556	\$ 16,406,695	\$ (86,906)

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
\$ -	\$ 747,170	\$ -	\$ -	\$ 747,170
-	-	-	-	-
-	747,170	-	-	747,170
-	-	-	-	3,554,021
-	596,407	-	-	8,413,790
4,042,223	249,410	-	-	13,694,525
4,042,223	845,817	-	-	25,662,336
(4,042,223)	(98,647)	-	-	(24,915,166)
-	-	-	-	18,564,600
-	59,560	-	-	1,044,302
-	-	-	-	(21,971,470)
3,609,114	-	-	-	3,609,114
-	(331,444)	-	-	(331,444)
3,609,114	(271,884)	-	-	915,102
(433,109)	(370,531)	-	-	(24,000,064)
632,604	4,853,480	81,068	2,708	56,053,272
-	-	-	-	(2,872,643)
632,604	4,853,480	81,068	2,708	53,180,629
\$ 199,495	\$ 4,482,949	\$ 81,068	\$ 2,708	\$ 29,180,565

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, 2017

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ (24,000,064)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Due from federal government at June 30, 2017, not collected within 60 days	241,184
Due from federal government at June 30, 2016, not collected within 60 days	(73,681)
Depreciation expense	(20,122)
Net decrease in compensated absences	<u>(6,865)</u>
Change in net position of governmental activities (Statement of Activities)	<u><u>\$ (23,859,548)</u></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
GENERAL FUND - FUND 18900, 38400 and 93100
ALL APPROPRIATIONS**

Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>(Budgetary Basis)</u>	<u>Final Budget</u> <u>Positive (Negative)</u>
Revenues				
General fund appropriation	\$ 6,564,600	\$ 6,564,600	\$ 6,564,600	\$ -
Other appropriations	10,000,000	10,000,000	350,000	(9,650,000)
Federal	-	-	-	-
Other financing sources	-	-	750,000	750,000
Other revenue	-	-	-	-
Total revenues	16,564,600	16,564,600	7,664,600	(8,900,000)
Prior year funds budgeted	1,600,000	1,600,000		
	<u>5,291,852</u>	<u>5,291,852</u>		
Total budgeted funds	\$ <u>23,456,452</u>	\$ <u>23,456,452</u>		
Expenditures				
Personal services and benefits	3,588,900	3,588,900	3,554,021	34,879
Contract services	17,820,852	17,820,852	7,734,474	10,086,378
Other	1,600,000	1,600,000	1,600,000	-
Other	446,700	446,700	389,602	57,098
Total expenditures	\$ <u>23,456,452</u>	\$ <u>23,456,452</u>	13,278,097	\$ <u>10,178,355</u>
Excess (deficiency) of revenue over expenditures			(5,613,497)	
GAAP basis reconciliation				
Reversions - General Fund			(21,736,728)	
Prior year bills paid with current year funds			-	
Net change in fund balance			\$ <u>(27,350,225)</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
JOB INCENTIVE TRAINING PROGRAM - FUND 63800
ALL APPROPRIATIONS**

Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	8,235,816	12,630,465	11,650,000	(980,465)
Federal grants	-	-	-	-
Other financing sources	-	-	-	-
Other revenue	-	-	-	-
Total revenues	\$ 8,235,816	\$ 12,630,465	11,650,000	\$ (980,465)
Expenditures				
Current				
Personal services and benefits	-	-	-	-
Contractual services	100,000	100,000	82,909	17,091
Other costs	8,135,816	12,530,465	7,413,290	5,117,175
Total expenditures	\$ 8,235,816	\$ 12,630,465	7,496,199	\$ 5,134,266
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget)			4,153,801	
GAAP basis reconciliation				
Timing differences due to accounts payable			-	
Net change in fund balance			\$ 4,153,801	

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, 2017

	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	747,170	(1,006,954)
Other financing sources	-	-	59,560	59,560
Other revenue	-	-	-	-
Total revenues	\$ -	\$ 1,754,124	806,730	\$ (947,394)
Expenditures				
Personal services and benefits	-	-	-	-
Contractual services	-	1,487,856	596,407	891,449
Other costs	-	266,268	249,410	16,858
Total expenditures	\$ -	\$ 1,754,124	845,817	\$ 908,307
Investment losses			(331,444)	
Excess (deficiency) of revenue over expenditures			(370,531)	
Net change in fund balance			\$ (370,531)	

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, 2017

	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
ISO 9000 - FUND 20530**

Year Ended June 30, 2017

	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	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Expenditures				
Personal services and benefits	-	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget)			-	
GAAP basis reconciliation				
Reversions			-	
			<u> </u>	
Net change in fund balance			<u>\$ -</u>	

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, 2017

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.

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE A - DEFINITION OF REPORTING ENTITY - CONTINUED

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, 2017

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 only those 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 consists 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. Any internal activity is eliminated in the preparation of government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

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, 2017

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 (SHARE 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, 2017

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).

ISO 9000 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 ISO 9000 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, 2015.

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 \$86,906 as of June 30, 2017. 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, 2017

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 implemented Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurements and Application* (GASB 72) in FY16, 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. The Department had no assets or liabilities to separately measure or disclose at fair value at June 30, 2017.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Measurement Focus and Basis of Accounting - Continued

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 the 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.

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 program 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Budgets and Budgetary Accounting - Continued

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.

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 2017, there were no estimated unallowable costs allowed for or charged to any federal grants.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Unearned Revenue

Unearned revenue represents a liability for the Governmental Funds. Unearned revenue is used to account for 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 \$30,958,341 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.

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).

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2017, were paid before September 30, 2017. 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.

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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, 2017, over 600. Expenditures for accumulated sick pay for hours under 600 will be recognized as employees take such absences.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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, 2017, 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

22. Fund Balances and Net Position - Continued

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.

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. Cost Allocation

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

25. Equity Method Investment

The Department accounts for its investment in the New Mexico Catalyst Fund L.P. by the equity method. The Department reports its share of such earnings (loss) in the Fund Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds, and in the government-wide Statement of Activities as investment gains or (losses). The carrying value of the investment is reported in the Statements of Net Position and the Balance Sheet – Governmental Funds as other investments.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

25. Equity Method Investment - Continued

At June 30, 2017, the Department held a 26% ownership position as a Class B Limited Partner that has elected to make its total capital commitment of \$5,000,000 in full. This amount is reported as capital and prepaid capital accordingly in the fund's financial statement at June 30, 2017.

The purpose of the partnership is to invest solely in private funds that make seed, venture capital and growth stage equity and structured debt investments in business enterprises with their headquarters domiciled in the state of New Mexico and which investments are compliant with State Small Business Credit Initiative (SSBCI) guidelines.

At June 30, 2017, the Department's carrying amount of its investment is \$4,668,556 and reported losses for the initial period ending on December 31, 2017, are \$(331,444).

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, 2017.

The Department, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). 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 January 31, 2018, the date the financial statements were available to be issued. No matters were identified that would require accrual or disclosure as of the date of these accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE C - STATE GENERAL FUND INVESTMENT POOL

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP. In accordance with Sections 6-10-10 I through O, NMSA 1978 as amended, the State Treasurer has the authority to invest money held in demand deposits and not immediately needed for the operation of state government. See the State Treasurer's annual audit report for the GASB 40 disclosure of the investments, which may be obtained by writing to the New Mexico State Treasurer's Office, P.O. Box 608, Santa Fe, NM 87504-0608.

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 was 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.

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 was 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE C - STATE GENERAL FUND INVESTMENT POOL - CONTINUED

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 pool balances at June 30, 2017, consisted of the following:

Deposits with State General Fund Investment Pool	
- governmental activities	\$ 31,079,668
Due to State General Fund Investment Pool	<u>(308,068)</u>
	<u>\$ 30,771,600</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, 2017.

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 and other at 06/30/2017	Dept. of Finance & Administration	39401	\$ 19,659	\$ -
18900	Reversion of MainStreet special appropriations in the operation fund at 06/30/2017	Dept. of Finance & Administration	39401	<u>8,499</u>	<u>-</u>
Total				<u>\$ 28,158</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

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.

NOTE G - CAPITAL ASSETS

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
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	115,630	17,515	-	133,145
Buildings and structures	11,274	2,607	-	13,881
Total accumulated depreciation	126,904	20,122	-	147,026
Net capital assets	\$ 66,712	\$ (20,122)	\$ -	\$ 46,590

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE G - CAPITAL ASSETS - CONTINUED

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	\$ 8,632
Film	545
Program support	1,297
Other initiatives	<u>9,648</u>
 Total	 <u><u>\$ 20,122</u></u>

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.

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 the 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE H - COMPENSATED ABSENCES - CONTINUED

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

	Balance June 30, 2016	Increase	Decrease	Balance June 30, 2017	Amounts Due Within One Year
Compensated absences	\$ 146,638	\$ 142,594	\$ (135,730)	\$ 153,502	\$ 153,502

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 – GENERAL FUND REVERSIONS

Current year reversions for the Department's General Fund as of June 30, 2017, were as follows:

Appropriation Year	Fund Type	SHARE System Fund	Reversion
Laws of 2016	General Fund	18900	\$ 186,728
Laws of 2015	General Fund	18900	21,550,000
			<u>\$ 21,736,728</u>

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 current year balance of \$167,653 is payable at June 30, 2017, and due by September 30, 2017. 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 paid the reversions payable during fiscal year 2017. The \$21,550,000 was swept by DFA during FY 2017.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

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, 2017, 2016, and 2015 were \$414,969, \$441,403, and \$443,405, respectively, which equal the amount of the required contributions for each fiscal year.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

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 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, 2017, 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, 2017

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, 2017, 2016, and 2015 were \$48,851, \$51,961, and \$52,215, 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, 2017, amounted to \$277,034.

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, 2017.

2018	\$	73,289
2019		30,016
2020		7,845
2021		-
2022		-
Thereafter		-
	\$	<u>111,150</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

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:

- 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, 2017, 2016, and 2015, 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.

State of New Mexico Economic Development Department

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE P - RESTRICTED FUND BALANCES

	General Fund	Major Special Revenue Funds	Major Capital Projects Funds	Federal Programs
Fund Balances:				
Restricted for:				
In-Plant Training (Section 21-19-11 NMSA 1978)	\$ -	\$ 16,406,695	\$ -	\$ -
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)	8,094,556	-	-	-
STB Capital Projects	-	199,495	-	-
Federal grants and state small business program	-	-	-	4,482,949
Unassigned (deficit)	-	-	(86,906)	-
	<u>8,094,556</u>	<u>16,689,966</u>	<u>(86,906)</u>	<u>4,482,949</u>
Total fund balances	<u>\$ 8,094,556</u>	<u>\$ 16,689,966</u>	<u>\$ (86,906)</u>	<u>\$ 4,482,949</u>

The amount of net position restricted by enabling legislation is \$29,180,565 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, 2017. 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

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.

The definition of 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).

The balance in this investment is carried under the equity method of investment as the Department investment balance represents a significant influence to the Partnership. At June 30, 2017, the investment in the Partnership is classified as other investments, and has a balance of \$4,668,556. The portion of investment losses allocated to the department's share of the capital in the Partnership were \$331,444 for the year ended June 30, 2017.

NOTE S - NEW ACCOUNTING STANDARDS

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, 2017

NOTE T - PRIOR PERIOD RESTATEMENT

Expenditures of \$2,872,643 related JTIP awards for the year ended June 30, 2016, were not accrued and recorded at June 30, 2016 due to the late receipt of invoices from program applicants. The invoices reflected the program completion employee training dates, which is the triggering event to accrue the Department's obligation to pay the applicant as is the policy of the Department. Accordingly, the beginning fund balance for fund 63800 has been reduced by \$2,872,643 to allocate these expenses to the appropriate year.

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, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ 4,148,900	\$ 4,148,900	\$ 4,148,900	\$ -
Other appropriations	-	-	350,000	350,000
Federal funds	-	-	-	-
Other financing sources	-	-	750,000	750,000
Other revenue	-	-	-	-
Total revenues	\$ 4,148,900	\$ 4,148,900	5,248,900	\$ 1,100,000
Expenditures				
Personal services and benefits	\$ 1,664,900	\$ 1,614,900	1,604,901	\$ 9,999
Contract services	2,248,900	2,323,900	2,244,338	79,562
Other	235,100	210,100	201,227	8,873
Total budgeted expenditures	\$ 4,148,900	\$ 4,148,900	4,050,466	\$ 98,434
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget)			1,198,434	
GAAP basis reconciliation				
Reversion to State General Fund			(132,705)	
Prior year bills paid and miscellaneous			-	
Net change in fund balance			\$ 1,065,729	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
SPECIAL MULTI-YEAR APPROPRIATION - LEDA PROGRAM
FUND 18900 ZA0522
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	1,250,000	1,250,000	-	(1,250,000)
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	\$ 1,250,000	\$ 1,250,000	-	\$ (1,250,000)
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	1,250,000	1,250,000	-	1,250,000
Other	-	-	-	-
Total budgeted expenditures	\$ 1,250,000	\$ 1,250,000	-	\$ 1,250,000
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
FILM DIVISION - FUND 18900 P514
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ 706,000	\$ 706,000	\$ 706,000	\$ -
Other appropriations	-	-	-	-
Federal funds	-	-	-	-
Other financing sources	-	-	-	-
Other revenue	-	-	-	-
Total revenues	\$ 706,000	\$ 706,000	706,000	\$ -
Expenditures				
Personal services and benefits	\$ 489,000	\$ 529,000	518,289	\$ 10,711
Contract services	81,900	106,900	106,881	19
Other	135,100	70,100	65,990	4,110
Total budgeted expenditures	\$ 706,000	\$ 706,000	691,160	\$ 14,840
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget)			14,840	
GAAP basis reconciliation Reversion to State General Fund			(3,976)	
Net change in fund balance			\$ 10,864	

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, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ 1,709,700	\$ 1,709,700	\$ 1,709,700	\$ -
Other appropriations	-	-	-	-
Federal funds	-	-	-	-
Other financing sources	-	-	-	-
Other revenue	-	-	-	-
Total revenues	<u>\$ 1,709,700</u>	<u>\$ 1,709,700</u>	1,709,700	<u>\$ -</u>
Expenditures				
Personal services and benefits	\$ 144,500	\$ 1,445,000	1,430,831	\$ 14,169
Contract services	98,200	98,200	91,403	6,797
Other	166,500	166,500	122,385	44,115
Total budgeted expenditures	<u>\$ 409,200</u>	<u>\$ 1,709,700</u>	1,644,619	<u>\$ 65,081</u>
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget)			65,081	
GAAP basis reconciliation				
Reversion to State General Fund			<u>(50,047)</u>	
Net change in fund balance			<u>\$ 15,034</u>	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
FUND 93100
MAJOR GOVERNMENTAL FUND – INCLUDED IN GENERAL FUND**

Year Ended June 30, 2017

	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	-	-	-	-
Prior year budgeted funds	1,600,000	1,600,000	-	-
Total budgeted funds	\$ 1,600,000	\$ 1,600,000	-	\$ -
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	1,600,000	1,600,000	1,600,000	-
Other	-	-	-	-
Total budgeted 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				
Reversion to State General Fund			-	
Net change in fund balance			\$ (1,600,000)	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
SPECIAL MULTI-YEAR APPROPRIATION – LEDA PROGRAM
ENDS JUNE 30, 2017 - FUND 18900 Z50521
MAJOR GOVERNMENTAL FUND - GENERAL FUND**

Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	10,000,000	10,000,000	-	(10,000,000)
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	10,000,000	10,000,000	-	\$ (10,000,000)
Prior year funds budgeted	5,291,852	5,291,852		
Total budgeted funds	\$ 15,291,852	\$ 15,291,852		
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	15,291,852	15,291,852	5,291,852	10,000,000
Other	-	-	-	-
Total budgeted expenditures	\$ 15,291,852	\$ 15,291,852	5,291,852	\$ 10,000,000
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget)			(5,291,852)	
GAAP basis reconciliation				
Reversion to State General Fund			(21,550,000)	
Net change in fund balance			\$ (26,841,852)	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
ENDS JUNE 30, 2017 - FUND 63800 ZA0523
MAJOR GOVERNMENTAL FUND – JOB INCENTIVE TRAINING PROGRAM**

Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	4,000,000	4,000,000	4,000,000	-
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	\$ 4,000,000	\$ 4,000,000	4,000,000	\$ -
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	-	-	-	-
Other	4,000,000	4,000,000	2,266,427	1,733,573
Total budgeted expenditures	\$ 4,000,000	\$ 4,000,000	2,266,427	\$ 1,733,573
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget)			1,733,573	
GAAP basis reconciliation				
Reversion to State General Fund			-	
Net change in fund balance			\$ 1,733,573	

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, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other appropriations	2,000,000	6,394,649	7,650,000	1,255,351
Federal funds	-	-	-	-
Other financing sources	-	-	-	-
Other revenue	-	-	-	-
Total revenues	\$ 2,000,000	\$ 6,394,649	7,650,000	\$ 1,255,351
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	-	100,000	82,909	17,091
Other	2,000,000	6,294,649	3,003,485	3,291,164
Total budgeted expenditures	\$ 2,000,000	\$ 6,394,649	3,086,394	\$ 3,308,255
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget)			4,563,606	
GAAP basis reconciliation				
Reversion to State General Fund			-	
Net change in fund balance			\$ 4,563,606	

State of New Mexico Economic Development Department

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
FUND 63800 Z50525
MAJOR GOVERNMENTAL FUND**

Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
General Fund appropriation	\$ 2,235,816	\$ 2,235,816	\$ -	\$ (2,235,816)
Other appropriations	-	-	-	-
Federal funds	-	-	-	-
Other state funds	-	-	-	-
Other financing sources	-	-	-	-
Total revenues	<u>\$ 2,235,816</u>	<u>\$ 2,235,816</u>	-	<u>\$ (2,235,816)</u>
Expenditures				
Personal services and benefits	\$ -	\$ -	-	\$ -
Contract services	-	-	-	-
Other	2,235,816	2,235,816	1,993,803	242,013
Total budgeted expenditures	<u>\$ 2,235,816</u>	<u>\$ 2,235,816</u>	1,993,803	<u>\$ 242,013</u>
Excess (deficiency) of revenue over expenditures (prior year cash balance required to balance budget			(1,993,803)	
GAAP basis reconciliation Reversion to State General Fund			-	
Net change in fund balance			<u>\$ (1,993,803)</u>	

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, 2017

Project Description	Appropriation ID	Expiration	Amount Appropriated	Current Year Expenditures	Current Year Reversions	Prior Year Incurred Balance	Balance as of June 30, 2017
<u>Local Economic Development Act (LEDA)</u>							
Economic Development Act Proceeds		6/30/2019	\$ 500,000	\$ 400,000	\$ -	\$ -	\$ 100,000
Albuquerque Eclipse Aviation		6/30/2019	400,000	83,148	-	316,852	-
Total LEDA Appropriations			<u>\$ 900,000</u>	<u>\$ 483,148</u>	<u>\$ -</u>	<u>\$ 316,852</u>	<u>\$ 100,000</u>
<u>Severance Tax Bond Proceeds</u>							
Economic Development MainStreet Projects	STB13A 13-1252	6/30/2017	500,000	45,621	1,087	453,292	-
Economic Development LEDA Projects	STB15SA 15-0230	6/30/2019	10,000,000	3,333,333	-	-	6,666,667
Economic Development MainStreet Projects	STB15SA 15-0231	6/30/2019	500,000	209,309	-	20,851	269,840
Economic Development LEDA Projects	STBA16A2039	6/30/2020	6,000,000	-	-	-	6,000,000
Economic Development MainStreet Projects	STBA16A2040	6/30/2020	500,000	-	-	-	500,000
Economic Development LEDA Projects	STBA16A2654	6/30/2020	21,550,000	-	21,550,000 *	-	-
Total Severance Tax Bonds			<u>39,050,000</u>	<u>3,588,263</u>	<u>21,551,087</u>	<u>474,143</u>	<u>13,436,507</u>
Total Capital Projects			<u>\$ 39,950,000</u>	<u>\$ 4,071,411</u>	<u>\$ 21,551,087</u>	<u>\$ 790,995</u>	<u>\$ 13,536,507</u>

*Amounts were reverted prior to expiration of appropriation due to budgetary reallocations in 2017.

Unexpended balances will be recorded as income when all eligibility requirements have been met.

State of New Mexico Economic Development Department

SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS

Year Ended June 30, 2017

<u>Fund Name</u>	<u>Fund Number</u>	<u>Fund Type</u>	<u>Depository</u>	<u>Unadjusted Balances</u>	<u>Adjustments/ Reconciling Items</u>	<u>Reconciled Balance per Books</u>
Cash with State General Fund Investment Pool (with SHARE fund numbers):						
General Fund	18900	Operating	State Treasury	\$ 9,434,452	\$ -	\$ 9,434,452
In-Plant Training Fund	63800	Special revenue	State Treasury	21,310,646	-	21,310,646
Capital Projects Fund	89200	Capital project	State Treasury	250,794	-	250,794
Revolving Loan Community Development	02300	Special revenue	State Treasury	81,068	-	81,068
ISO 9000	20530	Special revenue	State Treasury	2,708	-	2,708
Federal Programs	29500	Special revenue	State Treasury	(229,661)	-	(229,661)
Capital Projects Fund	02800	Capital project	State Treasury	(78,407)	-	(78,407)
Total Governmental Cash with State General Fund				<u>\$ 30,771,600</u>	<u>\$ -</u>	<u>\$ 30,771,600</u>
Statement of net position balance						\$ 31,079,668
Less overdrafts						<u>(308,068)</u>
						<u>\$ 30,771,600</u>

State of New Mexico Economic Development Department
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2017

<u>Federal Agency / Pass-Through Agency</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Defense - Direct Award		
Office of Economic Adjustment		
Economic Adjustment Assistance for State Governments	12.617	<u>\$ 656,429</u>
Office of Economic Adjustment		<u>656,429</u>
U.S. Department of Defense - Direct Award		
Small Business Administration		
State Trade Expansion	59.061	<u>258,244</u>
Total Small Business Administration		<u>258,244</u>
Federal Expenditures		<u>\$ 914,673</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2017

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the New Mexico Economic Development Department (the Department) under program of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements of Federal Awards*. Because the schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position or changes in net position of the Department. The Department elected not to use the 10% de minimis indirect cost rate.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**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. Wayne A. Johnson
New Mexico State Auditor
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents, and have issued our report thereon dated January 31, 2018.

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 questioned costs as items 2017-001 and 2017-002.

Compliance and Other Matters

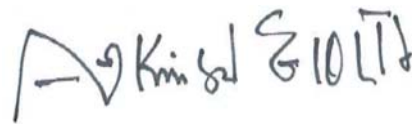
As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* as described in the accompanying schedule of findings and questioned costs as item 2017-003.

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 questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 initial "A" and a checkmark-like symbol.

Atkinson & Co. Ltd.

Albuquerque, New Mexico
January 31, 2018

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

State of New Mexico Economic Development Department
and
Mr. Wayne A. Johnson
New Mexico State Auditor
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Each Major Federal Program

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

Other Matters

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

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

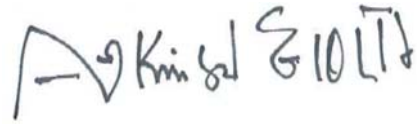
Report on Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-002 that we consider to be a significant deficiency.

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

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd." with a stylized flourish at the end.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
January 31, 2018

SUMMARY OF AUDIT FINDINGS

June 30, 2017

STATUS OF PRIOR YEAR FINDINGS

- 2014-001** Lack of Effective Year-End Accrual Procedures (Significant Deficiency) - RESOLVED
- 2016-001** Purchase Order Authorizations (Control and Compliance Deficiency) - RESOLVED
- 2016-002** Revision of Financial Statements for LEDA Transaction (Significant Deficiency) - RESOLVED

CURRENT YEAR FINDINGS

Financial Statement Findings

- 2017-001** Prior Period Adjustment for JTIP Expenses (Significant Deficiency)

Federal Award Findings and Questioned Costs

- 2017-002** Tracking of Federal Expenditures (Significant Deficiency)

State Audit Rule Compliance Findings

- 2017-003** Due Date of Audit Report (Other Noncompliance)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(s) identified? X Yes None reported
- Non-compliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(s) identified? X Yes None reported

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

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X Yes No

Identification of Major Programs:

<u>CFDA No.</u>	<u>Program</u>	
12.617	Economic Adjustment Assistance for State Government	\$656,429

Dollar threshold used to distinguish between Type A and Type B programs \$750,000

- Auditee qualified as low-risk auditee? Yes X No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

June 30, 2017

A. SUMMARY OF AUDITORS' RESULTS

CURRENT YEAR AUDIT FINDINGS

Financial Statement Findings Required by *Government Auditing Standards*

2017-001 Prior Period Adjustment for JTIP Expenses (Significant Deficiency)

CONDITION

The Department's audited financial statements for fiscal year 2016 were not reconciled to SHARE prior to issuance. As detailed in note T, this led to \$2,872,643 in JTIP awards payable as of June 30, 2016, to not be recorded. Accordingly, the beginning fund balance for fund 63800 has been reduced by \$2,872,643 to allocate these expenses to the appropriate year.

CRITERIA

The NMAC requires agencies to reconcile audited financial statements to SHARE prior to issuance. Governmental accounting standards require that expenditures be recorded in the period in which they originated.

CAUSE

Additional accounts payable continued to be recorded subsequent to providing financial information for the audit. No reconciliation process was in place during 2016 to ensure that audited financial information contained balances for additional vouchers payable recorded after the final financial information was provided. There was a change in the timing of recognition of JTIP projects.

EFFECT

Beginning fund balance was adjusted to correct for unrecorded vouchers payable at June 30, 2016.

RECOMMENDATIONS

We recommend that processes be put in place to ensure complete vouchers payable information is recorded.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

Agency followed the DFA Year-End instructions and submitted Attachment AG, 202900, Revised Accounts Payable Request Form and upon receipt of approval, booked the Accounts Payables. It was not until June 2017 that DFA-CAFR informed us that IPA had not booked this entry in the 2016 AJEs for Agency audit, therefore, all payments processed based on Agency's booked entry had to be reversed. For the 2017 audit, this is one of the major items that CFO worked with IPA to ensure that IPA's AJEs included a reconciliation and booked entry for the Accounts Payable.

POINT OF CONTACT:

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

June 30, 2017

CURRENT YEAR AUDIT FINDINGS - Continued

Federal Award Finding Required by Uniform Guidance

2017-002 Tracking of Federal Expenditures (Significant Deficiency)

Federal Agency: Department of Defense

Program: Economic Adjustment Assistance for State Government

CFDA No.: 12.617

Period: July 1, 2016 – June 30, 2017

CONDITION

During the course of the audit, it was discovered that certain federal expenditures not drawn under a monthly billing cycle were not included in the determination of total federal expenditures. This caused federal expenditures to exceed the \$750,000 single audit threshold for the first time in five years. The Department's determination of requirements of single audit was not sensitive to expenses incurred but not billed.

CRITERIA

The OMB Uniform Guidance requires recipients of federal funds be aware of all requirements, including requirements to procure a single audit. The recipient of federal funds has the responsibility to identify all federal awards and expenditures of federal awards.

CAUSE

Certain federal expenditures were not considered in determining total federal expenditures during the year for the purposes of determining if a single audit was required.

EFFECT

Additional audit requirements were discovered during the course of the audit, and the scope of procedures were expanded beyond the initial procurement.

RECOMMENDATIONS

We recommend that the Department implements appropriate tracking for federal expenditures.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

FY2017 was the first year that this Agency had multiple federal grants. There was a misunderstanding on the interpretation of the \$750K threshold in that Agency thought it was "per grant" versus a culmination of "all" federal grants. ASD Staff has received training regarding the criteria for a Single Audit. Agency follows the DFA Month-end Close Checklist, therefore, has and will continue to monitor federal expenses on a monthly basis.

POINT OF CONTACT:

Marilu Casillas, ASD Director/CFO

505-476-2192

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

June 30, 2017

CURRENT YEAR AUDIT FINDINGS - Continued

Findings Required by 2.2.2 NMAC

2017-003 Due Date of Audit Report (Other Noncompliance)

CONDITION

The June 30, 2017, audit report was not filed with the State Auditor by the statutory deadline of November 1, 2017.

CRITERIA

NMAC 2.2.2.9A requires the audited financial statements to be submitted to the State Auditor no later than November 1, 2017.

CAUSE

The scope of the audit was required to be expanded to meet single audit requirements under the Uniform Guidance as detailed in finding 2017-003. A single audit was required for the first time in five years due to the discovery of invoices evidencing federal expenditures as part of a search for unrecorded liabilities.

EFFECT

The Department is not in compliance with State Auditor Rule NMAC 2.2.2.9A for the fiscal year ended June 30, 2017.

RECOMMENDATIONS

We recommend that the Department ensures that the scope of all audit engagements is appropriately determined prior to the beginning of the audit. A specific schedule listing all federal expenditures may assist this task.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

This is related to 2017-002. As stated above, Agency will continue to monitor federal expenses on a monthly basis. Prior to start of subsequent annual audits, Agency will run a SHARE query listing all federal expenditures.

POINT OF CONTACT:

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

State of New Mexico Economic Development Department

EXIT CONFERENCE

June 30, 2017

An exit conference was held with the Department on January 11, 2018, at the Department's offices in Santa Fe, New Mexico. In attendance were:

ECONOMIC DEVELOPMENT DEPARTMENT

Barbara Brazil
Marilu Casillas
Chris Romero
Mary Armijo
Ramona Gonzales

Deputy Cabinet Secretary
ASD Director/CFO
Financial Coordinator/CPO
Accountant
Business Operations Specialist

ATKINSON & CO., LTD.

Martin Mathisen, CPA, CGFM
Brett Bauer, CPA

Audit Director
Audit Manager

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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