

**STATE OF NEW MEXICO
LEGISLATIVE FINANCE COMMITTEE**

**ANNUAL FINANCIAL REPORT
WITH INDEPENDENT AUDITOR'S REPORT
June 30, 2008**

Gordon and Hale

PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

112



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

January 22, 2009

SAO Ref. No. 112

David Abbey, Director
Legislative Finance Committee
325 Don Gaspar, Suite 101
Santa Fe, NM 87501-4401

SUBJECT: Audit Report—Legislative Finance Committee—2007-2008 Fiscal Year—Prepared by
Gordon & Hale, PC

The audit report for your agency was received by the Office of the State Auditor (Office) on November 18, 2008. The State Auditor's review of the audit report required by Section 12-6-14 (D) NMSA 1978 and 2.2.2.13 NMAC has been completed. This letter is your authorization to make the final payment to the independent public accountant (IPA) who contracted to perform your agency's financial and compliance audit. In accordance with Section 2 of the audit contract, the IPA will deliver the specified number of copies of the audit to the agency.

As per your written request, this office is waiving the ten (10) day waiting period and is making the report public record immediately. The audit report will be:

- released by the Office of the State Auditor to the Legislative Finance Committee, the Department of Finance and Administration, and the State Treasurer.

HECTOR H. BALDERAS
STATE AUDITOR

cc: Legislative Finance Committee
Department of Finance and Administration
Financial Control Division & Budget Division
Office of the State Treasurer
Gordon & Hale, PC

STATE OF NEW MEXICO
LEGISLATIVE FINANCE COMMITTEE

Official Roster
June 30, 2008

COMMITTEE:

Senator John Arthur Smith
Representative Luciano "Lucky" Varela
Senator Sue Wilson Beffort
Representative Donald E. Bratton
Senator Pete Campos
Senator Carlos R. Cisneros
Senator Phil A. Griego
Senator Stuart Ingle
Representative Ronda S. King
Representative Brian K. Moore
Senator Mary Key Papen
Senator Leonard Lee Rawson
Representative Henry "KiKi" Saavedra
Representative Nick L. Salazar
Representative Edward C. Sandoval
Representative Jeannette O. Wallace

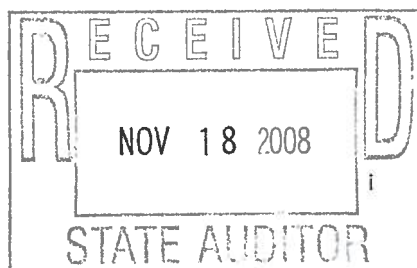
Chair
Vice Chair
Member
Member
Member
Member
Member
Member
Member
Member
Member
Member
Member
Member
Member
Member

DESIGNEES:

Senator Rod Adair
Representative Andrew J. Barreras
Representative Richard J. Berry
Senator Joseph Carraro
Representative Justin Fox-Young
Senator Mary Jane M. Garcia
Representative Roberto "Bobby" J. Gonzales
Senator Clinton D. Harden
Representative John A. Heaton
Representative Larry A. Larranaga
Senator Carroll H. Leavell
Senator Linda M. Lopez
Representative Antonio Lujan
Representative Patricia A. Lundstorm
Senator Cisco McSorley
Representative Al Park
Representative Danice Picraux
Senator Shannon Robinson
Senator Bernadette M. Sanchez
Senator H. Diane Snyder
Representative Thomas C. Taylor
Senator David Ulibarri
Representative Richard D. Vigil
Representative Peter Wirth

ADMINISTRATIVE:

David Abbey
Cathy T. Fernandez
Manu Patel
Sylvia J. Barela



Director
Deputy Director
Deputy Director
Administrator

RECEIVED
JAN 20 2009
STATE AUDITOR

**STATE OF NEW MEXICO
LEGISLATIVE FINANCE COMMITTEE**

Table of Contents
June 30, 2008

INTRODUCTORY SECTION

Official Roster	i
Table of Contents	ii

FINANCIAL SECTION

Independent Auditors Report	"1-2
Management's Discussion & Analysis	"3-5

EXHIBIT

Government Wide Financial Statements:

A Statement of Net Assets	"6
B Statement of Activities	"7

Fund Financial Statements:

C Combined Balance Sheet-Governmental Fund	"8
D Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Fund	"9
E Statement of Budgetary Comparison-General Fund	"10

NOTES TO THE FINANCIAL STATEMENTS "11-20

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	"21-22
--	--------

Summary of Prior Year Audit Findings	23
--------------------------------------	----

Exit Conference	24
-----------------	----

Gordon and Hale

PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS



Member

Division for CPA Firms AICPA

1482 A. S. ST. FRANCIS DRIVE
P.O. BOX 5162
SANTA FE, NM 87502-5162
PHONE (505) 982-0083
FAX (505) 986-8755

JACK R. GORDON JR., CPA
GILBERT GARCIA MALONE, CPA
KENNETH (KEITH) GRAY, CPA
STEVEN S. BERRY, CPA

ERVIN K. HALE, CPA

Independent Auditor's Report

Senator John Arthur Smith - Chair,
Members of the Legislative Finance Committee
and
Mr. Hector Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, the major fund and the respective budgetary comparison of the State of New Mexico, Legislative Finance Committee (Committee), a component unit of the State of New Mexico, as of and for the year ended June 30, 2008, which collectively comprise the Committee's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Committee's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in note 2 E, the financial statements of the State of New Mexico Legislative Finance Committee are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, and the aggregate remaining fund information of the State that is attributable to the transactions of the Legislative Finance Committee. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2008, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund, as of June 30, 2008, and the respective changes in financial position and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2008, on our consideration of the State of New Mexico, Legislative Finance Committee's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts and grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages 3, 4, and 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



November 3, 2008

MANAGEMENT DISCUSSION & ANALYSIS

The Legislative Finance Committee is a single purpose government with only one fund (General Fund), the accompanying Government Wide financial statements differ from the Fund financial statements by reporting capital assets, related depreciation, and long term debt which indicates a narrower focus than that of the government-wide financial statements. The reader will better understand the long term impact of the committee's near term financing decisions.

Government Wide Financial Statements

The government wide financial statements are designed to focus on the primary government as a whole. They are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange transactions and exchange like transactions are recognized when the exchange takes place. The Statement of Net Assets is prepared on an asset less liabilities resulting in net assets format. The Statement of Activities is presented in an expense compared to revenues resulting in the change in net assets for the period format.

Fund Financial Statements

The fund financial statements are designed to focus on major functions of the primary government. They are prepared on the modified accrual basis of accounting (see notes to the financial statements) and use the current financial resources measurement focus. Revenues are recognized in the accounting period in which they become available and measurable. Expenditures are recognized in the accounting period in which the fund liability is incurred if measurable. They reflect capital asset acquisitions as expenditures rather than assets of the acquiring fund, no depreciation is recognized. Similarly, long term debt is not recognized in the fund financial statements.

Financial Highlights

	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>Difference</u>
Government Wide-Condensed Statement of Net Assets:			
Current Assets	\$ 429,075	363,166	(65,909)
Capital Assets (net)	<u>59,460</u>	<u>61,974</u>	<u>2,514</u>
Total assets	<u>488,535</u>	<u>425,140</u>	<u>(63,395)</u>
Current Liabilities	439,974	377,792	62,181
Long term Liabilities	<u>198,748</u>	<u>214,269</u>	<u>(15,521)</u>
Total liabilities	<u>638,722</u>	<u>592,061</u>	<u>46,660</u>
Net Assets:			
Invested in capital assets	59,460	61,974	2,514
Unrestricted net assets	<u>(209,647)</u>	<u>(228,895)</u>	<u>(19,248)</u>
Net Assets	\$ <u>(150,187)</u>	<u>(166,921)</u>	<u>(16,734)</u>

Government Wide-Condensed Statement of Activity:

General Government- Legislative Expenses	\$(3,694,449)	(4,011,607)	(317,158)
General Revenues- Intergovernmental	3,680,020	3,976,400	296,380
Other income (expense)		12,860	12,860
Transfers	<u>(15,538)</u>	<u>5,613</u>	<u>(9,925)</u>
Change in net assets	<u>(29,967)</u>	<u>(16,734)</u>	13,233
Beginning net assets	<u>(120,220)</u>	<u>(150,187)</u>	<u>(29,967)</u>
Ending net assets	\$ <u>(150,187)</u>	<u>(166,921)</u>	<u>(16,734)</u>

The above decrease in assets, increase in liabilities, and decrease in net assets and fund balance reflect increased costs over the prior year. This is basically due to increased costs and increased staff. The accompanying statements of Activities and the Statement of Revenue, Expenditures, and Changes in Fund Balance also reflect these results.

As explained in the accompanying notes to the financial statements, the Committee made one budget adjustment moving \$79,000 from its personnel services with \$29,000 transferred to contractual services and \$ 50,000 transferred to other costs.

As explained in note 6, to the financial statements, \$14,572, was expended for capital assets and an additional \$15,887, was received from the Legislative Council Services. The Committee recognized \$24,919 of depreciation. The Committee disposed of \$53,659, of capital assets and recognized a \$3,027, loss on disposition. This loss reflects the un-depreciated value of the assets deleted.

Compensated absence liability is the long term debt (see note 8 to the financial statements). Compensated absences liability increased due to increased staff and decreased usage.

The Committee is in sound financial condition and is returning \$128,087, to the state general fund. Its budgeted expenditures of \$4,110,100, including other financing uses, were under spent by \$125,528 and an additional \$2,559 included in expenses but previously reserved as prepaid postage in the prior year increased the budget saving resulting in the current year reversion.

As noted above, compensated absence liability is a key factor influencing the Committee's net assets. The balances are extraordinary because prior to 1995, employees could receive compensation for the entire amount of accrued leave upon termination. Leave accrued prior to 1995, is grand-fathered but thereafter employees can only receive compensation for a maximum of 240, hours upon termination. A policy change allowing supervisors to be compensated for annual leave in excess of 600 hours up to 120 hours, at their full hourly rate, was implemented in June 2008. A similar policy exists for exempt executive employees. The payments are made annually and are based on budget availability. The change in policy is intended to decrease the compensated absence liability. Because of the impending budget cuts, payouts are not expected for the subsequent fiscal year. Since net assets are significantly impacted by the compensated absence liability, a reduction in resources will probably decrease net assets further.

Management is aware of a revenue shortfall and is preparing a plan to cut approximately 2.0% to 2.5% of the current years budget. The effect to operations should be minimal.



STATE OF NEW MEXICO
 LEGISLATIVE FINANCE COMMITTEE
 STATEMENT OF NET ASSETS
 June 30, 2008

Exhibit A

ASSETS

CURRENT ASSETS:		\$ 361,665
Cash and cash equivalents		1,501
Prepaid postage		
		<u>363,166</u>
Total current assets		
OTHER ASSETS:		176,271
Equipment & furniture		(114,297)
Accumulated depreciation		
		<u>61,974</u>
Net capital assets		
Total assets		<u>425,140</u>

LIABILITIES

CURRENT LIABILITIES:		69,484
Accounts payable		81,588
Accrued salaries & benefits		82,506
Accrued benefits, & payroll taxes		128,087
Due to state general fund		16,127
Current compensated absences payable		
		<u>377,792</u>
Total current liabilities		
OTHER LIABILITIES:		214,269
Long term compensated absences payable		
		<u>592,061</u>
Total liabilities		

NET ASSETS

		61,974
invested in net capital assets		(228,895)
Unrestricted		
		<u>(166,921)</u>
Total net assets		<u>\$ (166,921)</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO
LEGISLATIVE FINANCE COMMITTEE
STATEMENT OF ACTIVITIES
For the year ended June 30, 2008**

Exhibit B

EXPENSES

General government-Legislature \$ 4,011,607

GENERAL REVENUES

Intergovernmental:

State general fund appropriation 3,976,400

Total general revenue 3,976,400

Revenue over (under) expenses (35,207)

OTHER INCOME, (EXPENDITURE):

Loss on asset dispositions (3,027)

LCS asset contribution 15,887

Total other 12,860

TRANSFERS

Transfer from DFA - compensation package 133,700

Transfer to state general fund - 2008 reversions (128,087)

Total transfers 5,613

CHANGE IN NET ASSETS (16,734)

NET ASSETS BEGINNING OF PERIOD (150,187)

NET ASSETS END OF PERIOD \$ (166,921)

See accompanying notes to the financial statements.

STATE OF NEW MEXICO
 LEGISLATIVE FINANCE COMMITTEE
 BALANCE SHEET
 June 30, 2008

Exhibit C

GOVERNMENTAL FUND

ASSETS:

Cash and cash equivalents	\$	361,665
Prepaid postage		<u>1,501</u>
Total assets		<u>363,166</u>

LIABILITIES AND FUND BALANCE

LIABILITIES:

Accounts payable		69,484
Accrued salaries & benefits		164,094
Due to state general fund		<u>128,087</u>
Total liabilities		<u>361,665</u>

FUND BALANCE:

Reserve for prepaid expense		<u>1,501</u>
Total fund balance	\$	<u><u>1,501</u></u>

Reconciliation of Fund Balance to Net Assets

Total fund balance		1,501
Capital assets and related depreciation in governmental activities are not financial resources or uses and therefore are not reported in the funds.		
Capital assets		176,271
Accumulated depreciation		<u>(114,297)</u>
Compensated absences payable are long term liabilities which are not due and payable in the current period and therefore not reported as fund liabilities.		
Compensated absences payable		<u>(230,396)</u>
Net assets government wide	\$	<u><u>(166,921)</u></u>

See accompanying notes to the financial statements.

STATE OF NEW MEXICO
 LEGISLATIVE FINANCE COMMITTEE
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 FUND BALANCE-GOVERNMENTAL FUND
 For the year ended June 30, 2008

Exhibit D

EXPENDITURES

CURRENT:

General government - Legislative	
Personal services & benefits	\$ 3,336,736
Contract services	278,715
Operating	<u>369,122</u>
 Total expenditures	 <u>3,984,573</u>

REVENUE

Intergovernmental:

State general fund appropriation	3,976,400
	<u>3,976,400</u>
 Excess of revenue over expenditures	 <u>(8,173)</u>

Other financing sources (uses)

Transfer from DFA - compensation package	133,700
2008 Reversion to state general fund	<u>(128,087)</u>

Net other financing sources & (uses)	<u>5,613</u>
--------------------------------------	--------------

Net change in Fund Balance	(2,560)
----------------------------	---------

Fund balance beginning of year	4,061
--------------------------------	-------

Fund balance end of year	\$ <u><u>1,501</u></u>
--------------------------	------------------------

**RECONCILIATION OF CHANGE IN FUND BALANCE TO
 CHANGE IN NET ASSETS**

For the year ended June 30, 2008

Change in fund balance	\$ (2,560)
------------------------	------------

Governmental funds report capital outlays as expenditures. Government Wide financial statements capitalize the cost of capital outlays in the balance sheet and recognize the cost of those capital outlays over the useful lives of those capital assets through depreciation

Depreciation expense	(24,919)
Capital expenditures reclassified as capital assets	14,573
Contribution of capital assets from other agency	15,887
Loss on disposition of capital assets	(3,027)

Compensated absences are non current liabilities and are not reported in the fund financial statements.

increase in personal service expense for increase in compensated absence payable	<u>(16,688)</u>
--	-----------------

Change in net assets	\$ <u><u>(16,734)</u></u>
----------------------	---------------------------

See accompanying notes to the financial statements.

STATE OF NEW MEXICO
 LEGISLATIVE FINANCE COMMITTEE
 STATEMENT OF BUDGETARY COMPARISON
 For the year ended June 30, 2008

Exhibit E

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
EXPENDITURES				
Current:				
General government - legislative				
Personal services	\$ 3,468,800	3,389,800	3,336,736	53,064
Contract services	256,600	285,600	278,714	6,886
Other costs	384,700	434,700	369,123	65,577
Other financing sources:				-
Total expenditures	4,110,100	4,110,100	3,984,573	125,527
Transfers in:				
General fund appropriation	3,976,400	3,976,400	3,976,400	-
Compensation package	133,700	133,700	133,700	-
Net other financing sources (uses)	\$ 4,110,100	4,110,100	4,110,100	-
Reconciliation to reversion due to state general fund:				
Unexpended budget			\$ 125,527	
Decrease in prepaid postage			2,560	
Reversion due to state general fund			\$ 128,087	

See accompanying notes to the financial statements.

**STATE OF NEW MEXICO
LEGISLATIVE FINANCE COMMITTEE**

Notes to the Financial Statements
For the year ended June 30, 2008

1. Function of the entity

The Legislative Finance Committee (Committee) is a bipartisan, permanent interim committee of the legislature is comprised of sixteen members, eight from the House of Representatives and eight from the Senate. The Committee is governed by Sections 2-5-1, through 2-5-7 NMSA, 1978. Those sections create the Committee as a permanent interim committee of the legislature and provide for the appointment of a director and staff to assist the Committee in its work.

The duties of the Committee are delineated in Section 2-5-3, 2-5-4, and 2-5-4.1 NMSA, 1978. Those sections provide that the committee shall:

- A. Direct the director of the Committee in his work.
- B. Examine the laws governing the finances and operations of departments, agencies and institutions of the state and all of its political subdivisions and the effect of laws on the proper functioning of these governmental units as related to the laws.
- C. Recommend changes in the law if any are deemed desirable and draft and present to the legislature any legislation necessary.
- D. Make a full report of its findings and recommendations for each legislature.
- E. Annually review budgets and appropriation requests and the operations and management of selected state agencies, departments and institutions and make recommendations to the legislature.
- F. Furnish a document of its budget recommendations to each member of the standing finance committees, the governor, department of finance and administration and other members of the legislature who request it.
- G. Cooperate with the office of the governor, department of finance and administration, and taxation and revenue department in providing fiscal impact reports and other pertinent information concerning pending legislation.

To carry out its duties, the Committee may hold hearings and require testimony from representatives of each state agency, department, or institution. Section 2-5-7, NMSA, 1978, provides that the Committee has the power to administer oaths and the power to subpoena. Section 2-5-7, NMSA, 1978 states that each agency or institution of the state and its political subdivisions shall, upon request, furnish such non-confidential documents, material or information as may be requested by the members, director or staff.

Notes to the Financial Statements (Continued)

2. Summary of Significant Accounting Policies

The Committee is a component unit of the primary government, the State of New Mexico. These financial statements present the financial position and results of operations of only those Central Accounting System funds over which the Committee has oversight responsibility. The Committee does not have component units.

- A. Government resources are allocated to and accounted for in individual funds based upon the purpose for which spending activities are controlled. The following fund type is used by the Committee:

Governmental Fund

General Fund - The General Fund is the general operating fund for the Committee. It is used to account for all financing resources because there are no resources required to be accounted for in another fund.

The General Fund is funded primarily through appropriations from the State of New Mexico General Fund. Unexpended resources are reverted to the State General Fund.

B. Government Wide Financial Statements

The Government Wide Financial Statements include the Statement of Net Assets, and the Statement of Activities. These statements report financial information for the Committee as a whole.

C. Measurement Focus and Basis of Accounting

The government wide financial statements measure and report all assets (both financial and capital), liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and liabilities generally are included on the balance sheet. Operating statements of these fund present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

Notes to the Financial Statements (Continued)

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A sixty day availability period is used for revenue recognition for all governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

The revenues susceptible to accrual are appropriations and refunds.

D. **Budget and Budgetary Accounting**

The Committee prepares and submits an annual budget for the General Fund to the Department of Finance and Administration (DFA) for approval based upon the appropriations made by the State Legislature. This budget must be submitted by September 1 for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them and is approved by the Legislature of the State of New Mexico. Subsequent amendments affecting a category must be approved by the Director of the State Budget Division of DFA. \$79,000, dollars were reclassified from the original budget for personnel services, and allocated \$29,000, to contractual services and \$50,000 to other costs.

Budgets are controlled at the "category" level (personal services/contractual services, etc.). Budget appropriations lapse at the end of the fiscal year if not encumbered or made non-reverting by the Legislature. Funds for the fiscal year ended June 30, 2008, were appropriated in the Laws of 2007, HB 1, Section 4.

The budget for the General Fund 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 (Section 6-10-4 NMSA 1978), that must be paid out of the next year's budget. Additionally, a budget is not prepared for the excess of revenues over expenditures, other financing uses, or fund balance.

Encumbrances represent commitments related to unperformed contracts for goods and services.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. As of June 30, 2006, there will generally be no encumbrances at year-end. Any valid encumbrances are rolled over and made encumbrances of the ensuing fiscal year. Only for multi-year appropriations will there be outstanding encumbrances at year end.

Notes to the Financial Statements (Continued)

E. **Cash and cash equivalents**

Cash or cash equivalents represents the Legislative Finance Committee's interest in the New Mexico State Treasurer's General Fund Investment Pool on deposit with the New Mexico State Treasurer. The general fund investment pool is not rated. The New Mexico State Treasurer issues a separate publicly available audited financial report that includes related investment risks that could affect the government's ability to meet its obligations as they become due. The report may be obtained by writing to the New Mexico State Treasurer's Office, 2019 Galisteo St., Santa Fe, NM. 87505.

F. **Compensated Absences**

Within the Statement of Net Assets, all vested or accumulated vacation and sick leave is recognized and separated into current and long term portions. The current portion is estimated based on historical trends approximating 7% of the total liability.

Within the Statement of Net Assets, vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as expenditure and a fund liability of the governmental fund that will pay it. No expenditure is reported for these amounts in the fund financial statements since appropriations of the committee revert at the end of each year.

G. **Capital assets**

The Statement of Net Assets reflects capital assets at cost or estimated cost net of depreciation. Depreciation is computed on capital assets based on the assets estimated useful life (4 to 6 years based on management's experience) on the straight line basis. The committee has adopted the half year convention.

All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The Committee capitalizes fixed assets with a value of \$5,000.00 or greater having a useful life in excess of one year.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized. Periodically, the Legislative Finance Committee receives computer equipment acquired by the Legislative Council Service, a separate state agency. The Committee holds title to these assets and recognizes a "Capital Contribution" equal to the cost of the contributed assets as other income in the statement of activity.

Within the Balance Sheet of the fund statements fixed assets are not capitalized. Instead, capital acquisition and construction are reflected as expenditures in governmental funds.

Notes to the Financial Statements (Continued)

H. **Long-Term Obligations**

Within the government wide financial statements, long term liabilities are recognized when incurred.

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is not reported in the fund financial statements.

I. **Net Assets and Fund Equity**

Restricted net assets represent monies earmarked for specific anticipated future charges.

Reserves represent those portions of fund equity not appropriate for expenditure or legally segregated for a specific future use.

J. **Accounting Standards**

In June 2004, the Government Accounting Standards Board (GASB) issued GASB statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*, effective for the financial statements for periods beginning after December 15, 2006. This statement establishes standards for measurement, recognition, and display of other post employment benefits expenses/expenditures and related liabilities, note disclosures, and if applicable required supplementary information in the financial reports of state and local governmental employers. It is currently believed that this statement will have no significant effect on the financial statements of the Legislative Finance Committee.

3. **RETIREMENT PLAN - STATE OF NEW MEXICO GENERAL PLAN**

PERA Pension Plan

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

Notes to the Financial Statements (Continued)

PERA Pension Plan continued

Funding Policy. Plan members are required to contribute 7.42% of their gross salary. The Committee is required to contribute 16.59% of the gross covered salary. The contribution requirements of the plan members and the Legislative Finance Committee are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Committee's contributions to PERA for the years ending June 30, 2008, 2007, and 2006, were \$415,111, \$381,960, and \$347,790, respectively, which equal the amount of the required contributions for each year.

4. Deferred Compensation Plan

The State of New Mexico offers state, local government and school district employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all State employees and those local government and school district employees whose employers have elected participation in the plan which permits participants to defer a portion of their salary until future years.

The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) to be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors.

There are employees that are making contributions to the Deferred Compensation Plan. Neither the Committee nor the State of New Mexico make contributions to the Deferred Compensation Plan. All contributions withheld from the participants' salaries by the Committee have been paid to the New Mexico Public Employees' Retirement Association, which administers the plan or recognized as liabilities.

5. Post Employment Benefits-State Retiree Health Care Plan

Plan description:

The Committee contributes to the New Mexico Retiree Health Care Fund, a cost sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board 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.

Notes to the Financial Statements (Continued)

Plan description continued:

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 Retiree Health Care Authority 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, 4308 Carlisle NE, Suite 104, Albuquerque, New Mexico 87107.

The Retiree Health Care Act (Chapter 10, Article 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. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also 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 Committee's contributions to the RHCA for the years ended June 30, 2008, 2007, and 2006 were \$30,569, \$28,633, and \$ 27,183 respectively, which equal the required contributions for each year.

Notes to Financial Statements (Continued)

6. **Capital Assets**

The source of all purchased capital assets and general fixed assets is the Committee's General Fund. Additionally, the legislative council services contributed \$15,877 of equipment during the year.

	Balance <u>6/30/07</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/08</u>
Furniture and equipment	<u>\$199,470</u>	<u>30,460</u>	<u>53,659</u>	<u>176,271</u>
Accumulated depreciation	<u>\$140,010</u>	<u>24,919</u>	<u>50,632</u>	<u>114,297</u>

Within the government wide financial statements, \$ 24,919 of depreciation has been recognized. Within the government wide financial statements expenses include \$3,027, of loss on disposition of fixed assets.

7. **Accrued Compensated Leave**

Within the government wide financial statements, the committee recognizes the total liability for compensated absences and the related expenditure. The total of \$ 230,397 is allocated \$16,128 to current liabilities and \$214,269 to long term liabilities. The committee increased personnel services expense by \$15,503, and payroll tax expense by \$1,186, in accruing the compensated absence liability. The Committee paid \$25,392, in compensated leave at terminations.

Employees accumulate annual leave at a rate based on length of continuous service. The Committee changed its policy during the year ended June 30, 1996, by not compensating compensatory time earned after January 1, 1996, and by limiting compensation for unused vacation earned after January 1, 1996, to 240 hours. Leave earned prior to the change but unused at year end is included in the liability for unpaid leave. There is no maximum on the amount of annual leave that may be carried over from year to year, but compensation at termination is limited as stated above except for the leave earned prior to the change. Included in the above accrual is \$16,128 of payroll tax, \$214,024 annual leave, and \$7,666 of accrued sick leave for the sick leave in excess of 600 hours, up to a limit of 120 hours per eligible employee. Employees who have over 600 hours of sick leave may be paid at one half their pay-rate for up to 120 hours on either July 1, and January 1, of each year. At retirement the employee may receive payment for up to 400 hours of sick leave.

Notes to the Financial Statements (Continued)

8. **Long Term Debt**

The following is a summary of changes in general long-term debt during the fiscal year ended June 30, 2008:

	Balance <u>6/30/07</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>6/30/08</u>	Current <u>Portion</u>	Long <u>Term</u>
Compensated absences payable including employer's share of FICA:						
Annual leave	\$207,755	54,157	39,837	222,075	15,482	206,593
Sick leave	<u>5,953</u>	<u>8,886</u>	<u>6,518</u>	<u>8,321</u>	<u>645</u>	<u>7,676</u>
Totals	<u>\$213,708</u>	<u>63,043</u>	<u>46,355</u>	<u>230,396</u>	<u>16,127</u>	<u>214,269</u>

9. **Operating leases**

The committee maintained two operating leases. They include a copier and a mailing machine lease. The copier lease calls for regular monthly payments of \$ 1,989.00 base lease plus usage. The mailing machine lease calls for twelve monthly payments of \$74.23 then thirty six monthly payments of \$149.23. The committee paid \$25,659 in base lease payments during the year. Following are the cash requirements for existing leases.

<u>Due June 30,</u>	<u>Mailing Machine</u>	<u>Copier</u>	<u>Total</u>
2009	\$ 1,791	11,933	13,724
2010	1,791	-0-	1,791
2011	1,791	-0-	1,791
There after	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Totals	\$ <u>5,373</u>	<u>11,933</u>	<u>17,306</u>

10. **Cash and cash equivalents:**

Cash and cash equivalents represents The Legislative Finance Committee's interest in the New Mexico State Treasurer's General Fund investment Pool and is on deposit with the New Mexico State Treasurer as follows:

General Fund - SHARE FUND ACCOUNT No. 11200 FUND 13000

	Type of <u>Account</u>	Balance <u>6/30/08</u>
N.M. State Treasurer	Operating	\$ 361,665

The necessary collateral for this account is monitored by the State of New Mexico Office of the State Treasurer. The State Treasurer issues separate financial statements which disclose the collateral pledged to secure these deposits.

Notes to the Financial Statements (Continued)

11. **Operating transfers**

Following is a schedule of non-exchange operating transfers occurring during the year:

<u>Fund</u>	<u>Agency Number</u>	<u>SHARE Number</u>	<u>Transfer</u>	
			<u>To</u>	<u>From</u>
General fund:				
State general fund				
Appropriation	11200	13000	\$3,976,400	
	34100	85300		\$3,976,400
DFA comp. package				
Transfer	11200	13000	133,700	
	34100	85300		133,700
Reversion (07)				
	34100	85300	148,738	
	11200	13000	\$	148,738

12. **Insurance (Risk)**

The Committee is exposed to certain risks including general liability, civil rights, loss or damage to equipment and employee dishonesty. The Committee purchases insurance through the State of New Mexico, General Services Department-Risk Management Division. The Committee must make claims to the Risk Management Division for insurable losses incurred. The Committee transfers risk of loss to the risk pool.

13. **Reversions**

Reversions to the State general fund were as follows:

For the prior fiscal year ended June 30, 2007	\$ <u>148,738</u>
Accrued as due to state general fund at June 30, 2008	\$ <u>128,087</u>

14. **Estimates:**

Preparation of financial statements in conformity with Generally Accepted Accounting Principles, requires the use of management's estimates.

Gordon and Hale

PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS



Member

Division for CPA Firms AICPA

1482 A. S. ST. FRANCIS DRIVE
P.O. BOX 5162
SANTA FE, NM 87502-5162
PHONE (505) 982-0083
FAX (505) 986-8755

JACK R. GORDON JR., CPA
GILBERT GARCIA MALONE, CPA
KENNETH (KEITH) GRAY, CPA
STEVEN S. BERRY, CPA

ERVIN K. HALE, CPA

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

Senator John Arthur Smith - Chair,
Members of the Legislative Finance Committee
and
Mr. Hector H. Balderas-
New Mexico State Auditor

We have audited the financial statements of the governmental activities, the major fund and respective budgetary comparison of the State of New Mexico, Legislative Finance Committee (Committee), a component unit of the State of New Mexico, as of and for the year ended June 30, 2008 which collectively comprise the committee's basic financial statements and have issued our report thereon dated November 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Committee's internal control over financial reporting as a basis for designing our auditing procedures 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 agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Committee's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Committee's financial statements that is more than inconsequential will not be prevented or detected by the Committee's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Committee's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and other matters

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

This report is intended solely for the information and use of the management and members of the Legislative Finance Committee, the State of New Mexico Office of the State Auditor and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than these specified parties.



Gordon and Hale, P.C.
November 3, 2008

STATE OF NEW MEXICO
Legislative Finance Committee
Summary of Prior Year Audit Findings

Prior Year Audit Findings:

There were no prior year audit findings.

DISCLOSURE REQUIRED BY THE OFFICE OF THE NEW MEXICO STATE AUDITOR

The financial statements were prepared by the auditor from trial balances prepared by the Committee's management. Adjusting entries were developed as a result of the audit. These adjustments were reviewed and approved by LFC's Management who assumes responsibility for these financial statements and the disclosures.

EXIT CONFERENCE

An exit conference was held on November 18, 2008 to discuss this report. Representing the Legislative Finance Committee was Senator-John Arthur Smith, David Abbey-Director, Cathy Fernandez-Deputy Director, and Sylvia Barela-Administrative Services Manager. Representing Gordon and Hale, P.C. was Gilbert Malone, CPA.

We wish to take this opportunity to thank Mrs. Sylvia Barela, and other staff for their assistance in the conduct of the audit.