

**STATE OF NEW MEXICO
LEGISLATIVE FINANCE COMMITTEE**

**ANNUAL FINANCIAL REPORT
WITH INDEPENDENT AUDITOR'S REPORT
June 30, 2011**

Gordon and Hale

PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

**STATE OF NEW MEXICO
LEGISLATIVE FINANCE COMMITTEE**

Official Roster

June 30, 2011

COMMITTEE:

Senator John Arthur Smith	Chair
Representative Luciano "Lucky" Varela	Vice Chair
Senator Sue Wilson Beffort	Member
Senator Pete Campos	Member
Senator Carlos R. Cisneros	Member
Senator Stuart Ingle	Member
Senator Carroll H. Leavell	Member
Senator Mary Kay Papen	Member
Senator John M. Sapien	Member
Representative William "Bill" J. Gray	Member
Representative Rhonda S. King	Member
Representative Larry A. Larrañaga	Member
Representative Henry "KIKI" Saavedra	Member
Representative Nick L. Salazar	Member
Representative Edward C. Sandoval	Member
Representative Don L. Tripp	Member
Representative James P. White	Member

DESIGNEES:

Senator Rod Adair
Senator Phil A. Griego
Senator Clinton D. Harden, Jr.
Senator Timothy Z. Jennings
Representative Ray Begaye
Senator Timothy M. Keller
Senator Linda M. Lopez
Senator Cisco McSorley
Senator Howie Morales
Senator Steven P. Neville
Senator William H. Payne
Senator Sander Rue
Senator Bernadette M. Sanchez
Senator William E. Sharer
Senator David Ulibarri
Senator Peter Wirth
Representative Ray Begaye
Representative Donald E. Bratton
Representative Conrad D. James
Representative Antonio Lujan
Representative Patricia A. Lundstorm
Representative Al Park
Representative Danice Pixraux
Representative Thomas C. Taylor
Representative Richad D. Vigil

ADMINISTRATIVE:

David Abbey	Director
Charles Sallee	Deputy Director
Jeanne L. Ledger	Administrator
Sylvia J. Barela through February 2011	Administrator

STATE OF NEW MEXICO
LEGISLATIVE FINANCE COMMITTEE
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June 30, 2011.

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Gordon and Hale

PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS



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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 (general 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, 2011, 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, 2011, 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 of the State of New Mexico Legislative Finance Committee referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund (general fund), of the State of New Mexico Legislative Finance Committee, as of June 30, 2011, 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 October 3, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3, 4, and 5 be presented to supplement the basic financial statements. Such information, although not 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 inquires 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Legislative Finance Committee's basic financial statements as a whole. The introductory section and schedule 1 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Memorandum of Understanding is presented for additional analysis as required by The New Mexico State Office of the State Auditor Rule and is also not a required part of the financial statements. The Schedule of Memorandum of Understanding is the responsibility of management and was derived from and relate 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 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Gordon & Hale, P. C.

October 3, 2011

Senator John Arthur Smith
Chairman

Senator Sue Wilson Beffort
Senator Pete Campos
Senator Carlos R. Cisneros
Senator Stuart Ingle
Senator Carroll H. Leavell
Senator Mary Kay Papen
Senator John M. Sapien

State of New Mexico
LEGISLATIVE FINANCE COMMITTEE

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David Abbey
Director



Representative Luciano "Lucky" Varela
Vice-Chairman

Representative William "Bill" J. Gray
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Representative Larry A. Larrañaga
Representative Henry Kiki Saavedra
Representative Nick L. Salazar
Representative Edward C. Sandoval
Representative Don L. Tripp
Representative James P. White

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 that the fund financial statements have 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

Government Wide-Condensed Statement of Net Assets:

	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>Difference</u>
Current Assets	\$ 393,588	418,709	25,121
Capital Assets (net)	67,961	46,705	(21,256)
 Total assets	 <u>461,549</u>	 <u>465,414</u>	 <u>3,865</u>
 Current Liabilities	 410,029	 429,919	 (19,890)
Long term Liabilities	233,979	152,849	81,130
 Total liabilities	 <u>644,008</u>	 <u>582,768</u>	 <u>61,240</u>
 Net Assets:			
Invested in capital assets	67,961	46,705	(21,256)
Unrestricted net assets	(250,421)	(164,059)	86,362
 Net Assets	 <u>\$ (182,460)</u>	 <u>(117,354)</u>	 <u>65,106</u>

Government Wide-Condensed Statement of Activity:

General Government Legislative-expenditures	\$ (3,992,622)	(3,639,618)	353,004
General Revenues-Intergovernmental	4,178,100	3,885,100	(293,000)
Other income (expenditure)	20,608	5,527	(15,081)
Transfers	<u>(196,938)</u>	<u>(185,903)</u>	<u>11,035</u>
Change in net assets	9,148	65,106	55,958
Beginning net assets	(191,608)	(182,460)	9,148
Ending net assets	<u>\$ (182,460)</u>	<u>(117,354)</u>	<u>65,106</u>

The above increase in assets, decrease in liabilities and increase in net assets reflect a decrease in expenditures during times of austerity. The accompanying statement of Activity 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 \$77,700 from personnel services with \$72,700 transferred to contractual services and \$5,000 transferred to other costs. This was necessary due to significant employee terminations/transfers which were covered with contractual services.

As explained in note 6 to the financial statements, \$5,349 of capital assets were received from Legislative Council Services (LCS). The Committee did not purchase capital assets during the fiscal year. The committee recognized \$25,450 of depreciation expense and a loss of \$1,154 on disposition of assets representing the undepreciated value of those assets.

Compensated absence liability is the long term debt of the Committee (See note 8 to the financial statements). Compensated absences decreased due to significant employee terminations/transfers.

The Committee is in sound financial condition and is returning \$185,903 to the State General Fund. It's budgeted expenditures were underspent by \$182,084 and it recognized an additional \$1,332 of prior year expenditure refunds and a stale dated warrant and a \$2,486 refund of a current year expenditure which increased it's reversion.

As noted above, the compensated absence liability is a key factor influencing the Committee's net assets. The balances were extraordinary due to prior policy which allowed limitless accumulation of compensated leave prior to 1995. The policy was changed to limit compensation of unused leave to 240 hours. All employees with pre 1995 leave have terminated or sold such leave as of June 30, 2011.

During the 2011 fiscal year, the Committee experienced a 3.8% decrease in its appropriation as compared to its 2010 appropriation which was decreased 3% from the 2009 appropriation. High employee turnover resulted when many senior employees took high management jobs with the new governor and key management retired. Junior analysts and evaluators have been hired at lower salary rates, creating additional budget savings. The Deputy Director position will be filled during fiscal year 2012. Spending will continue to be closely evaluated and only expenditures critical to the agency operation will be allowed.

STATE OF NEW MEXICO
 LEGISLATIVE FINANCE COMMITTEE
 STATEMENT OF NET ASSETS
 June 30, 2011.

Exhibit A

ASSETS

CURRENT ASSETS:

Interest in the New Mexico General Fund Investment Pool	\$	418,414
Prepaid postage		295
		418,709
Total current assets		418,709

OTHER ASSETS:

Equipment & furniture		177,166
Accumulated depreciation		(130,461)
		46,705
Net capital assets		46,705
Total assets		465,414

LIABILITIES

CURRENT LIABILITIES:

Accounts payable		31,967
Accrued salaries		142,818
Accrued benefits		35,139
Accrued payroll taxes		22,587
Due to state general fund		185,903
Current compensated absences payable		11,505
Total current liabilities		429,919

OTHER LIABILITIES:

Long term compensated absences payable		152,849
Total liabilities		582,768

NET ASSETS

Invested in net capital assets		46,705
Unrestricted		(164,059)
Total net assets	\$	(117,354)

See accompanying notes to financial statements.

STATE OF NEW MEXICO
 LEGISLATIVE FINANCE COMMITTEE
 STATEMENT OF ACTIVITIES
 For the year ended June 30, 2011

Exhibit B

EXPENSES

General government-Legislative \$ 3,639,618

GENERAL REVENUES

Intergovernmental:

State general fund appropriation 3,885,100

Total general revenue 3,885,100

Revenue over (under) expenses 245,482

OTHER INCOME, (EXPENDITURE):

Loss on asset dispositions (1,154)

LCS asset contribution 5,349

Miscellaneous revenue 1,332

Total other 5,527

TRANSFERS

Transfer to state general fund - 2010 reversions (185,903)

Total transfers (185,903)

CHANGE IN NET ASSETS 65,106

NET ASSETS BEGINNING OF PERIOD (182,460)

NET ASSETS END OF PERIOD \$ (117,354)

See accompanying notes to the financial statements.

STATE OF NEW MEXICO
 LEGISLATIVE FINANCE COMMITTEE
 BALANCE SHEET
 June 30, 2011

Exhibit C

GOVERNMENTAL FUND-GENERAL FUND

ASSETS:

Interest in the New Mexico General Fund Investment Pool	\$ 418,414
Prepaid postage	295

Total assets	<u>418,709</u>

LIABILITIES AND FUND BALANCE

LIABILITIES:

Accounts payable	31,967
Accrued salaries	142,818
Accrued benefits	35,139
Payroll taxes payable	22,587
Due to state general fund	<u>185,903</u>

Total liabilities	<u>418,414</u>

FUND BALANCE:

Nonspendable:

Reserve for prepaid expense	<u>295</u>

Total fund balance	<u>\$ 295</u>

Reconciliation of Fund Balance to Net Assets

Total fund balance	\$ 295
Capital assets and related depreciation in governmental activities are not financial resources or uses and therefore are not reported in the funds.	
Capital assets	177,166
Accumulated depreciation	(130,461)
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	(164,354)

Net assets government wide	<u>\$ (117,354)</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 (GENERAL FUND)
 For the year ended June 30, 2011

Exhibit D

EXPENDITURES

CURRENT:

General government - Legislative	\$ 3,223,964
Personal services & benefits	220,238
Contract services	257,202
Operating	<u>257,202</u>
 Total expenditures	 3,701,404

REVENUE

Intergovernmental:	
State general fund appropriation	<u>3,885,100</u>
 Excess of revenue over expenditures	 <u>183,696</u>
 Other financing sources (uses)	
Miscellaneous revenue	1,332
 2009 Reversion to state general fund	 <u>(185,903)</u>
 Net other financing sources & (uses)	 <u>(184,571)</u>
 Net change in Fund Balance	 (875)
 Fund balance beginning of year	 1,170
 Fund balance end of year	 \$ <u><u>295</u></u>

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

For the year ended June 30, 2010

Change in fund balance	\$ (875)
 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	(25,450)
 Contribution of capital assets from other agency	 5,349
Loss on disposition of capital assets	(1,154)
 Compensated absences are non current liabilities and are not reported in the fund financial statements.	
decrease in expense for decrease in compensated absence payable	<u>87,236</u>
 Change in net assets	 \$ <u><u>65,106</u></u>

See accompanying notes to the financial statements.

STATE OF NEW MEXICO
 LEGISLATIVE FINANCE COMMITTEE
 STATEMENT OF BUDGETARY COMPARISON-GENERAL FUND
 For the year ended June 30, 2011

Exhibit E

	Budget			Actual	Variance Favorable (Unfavorable)
	Original	Changes	Final		
EXPENDITURES					
CURRENT:					
General government - legislative					
Personal services	\$ 3,432,600	(77,700)	3,354,900	3,223,964	130,936
Contract services	169,300	72,700	242,000	220,238	21,762
Other costs	283,200	5,000	288,200	257,202	30,998
	<u>3,885,100</u>	<u>-</u>	<u>3,885,100</u>	<u>3,701,404</u>	<u>183,696</u>
Transfers in:					
General fund appropriation	3,885,100		3,885,100	3,885,100	-
Other financing source:					
Miscellaneous revenue			-	1,332	1,332
Net other financing sources (uses)	\$ <u>3,885,100</u>	<u>-</u>	<u>3,885,100</u>	<u>3,886,432</u>	<u>1,332</u>

Reconciliation of Budgetary Basis to GAAP Basis:

	Revenue	Expenditures
Budgetary Basis	\$ 3,885,100	3,701,404
Depreciation expense		25,450
Accrued compensated absences & payroll taxes		(87,236)
GAAP Basis	<u>\$ 3,885,100</u>	<u>3,639,618</u>

Reconciliation to reversion due to state general fund:

Unexpended budget ACTUAL	\$ 183,696
Expense reduction for refund of current year expense	(2,486)
Expense increase for decrease in prepaid postage	874
Unexpended budget-DFA	<u>182,084</u>
Stale dated warrants	706
Refund of prior year expenditures	627
Refund of current year expenditure	2,486
Reversion due to state general fund	<u>\$ 185,903</u>

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, 2011

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.

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. **Governmental Resources**

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. The 2011 fiscal year budget was adjusted, \$77,700, dollars were reclassified from personal services of which \$5,000 transferred to other costs, and \$72,700 to contractual services. Under Laws of 2010, House Bill 1, chapter 1, section 4; House Bill 2, chapter 6, section 10B, and 14. The fiscal year 2010 appropriation to the Legislative Finance Committee was reduced by a total of \$ 152,300.

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, 2011, were appropriated in the Laws of 2010, HB 1, Chapter 1, Section, 4. and reduced as shown above. Unexpended, unencumbered budget balances are reverted to the state general fund.

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.

E. **Interest in the New Mexico General Fund Investment Pool:**

The Legislative Finance Committee's interest in the New Mexico General Fund Investment Pool is on deposit with the New Mexico State Treasurer. The general fund investment pool is not rated. There is a risk (interest rate risk) that changes in interest rates will adversely affect the fair value of an investment. The New Mexico Department of Finance and Administration transfers equal monthly amounts of the Committee's annual appropriation from the General Fund account with the New Mexico State Treasurer to the Committee's account with the New Mexico State Treasurer. The monthly transfers represent available funds for disbursement and are considered measured at fair value. The Committee does not have an investment policy that limits investment interest rate risk.

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 8 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.

Notes to the Financial Statements (Continued)

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.

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 appropriable for expenditure or legally segregated for a specific future use.

J. **Accounting Standards Implementation**

The Committee had elected to implement GASB 54 which is effective for fiscal years beginning after June 15, 2011. The initial distinction that is made in reporting fund balance in the fund financial statement is identifying amounts that are considered non-spendable, such as fund balances associated with prepaid expenses, or inventories. This Statement also provides for additional classifications as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The effect on LFC’s financial statements is minimal.

3. **Pension Plan – Public Employees Retirement Association**

PERA Pension Plan

Plan Description. Substantially all of 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.

Funding Policy: Plan members are required to contribute 8.92% of their gross salary. The Committee is required to contribute 15.09% of the gross covered salary. The contribution requirements of the plan members and the 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, 2011, 2010, and 2009, were \$344,476, \$392,383, and \$451,863, 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 contribute 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 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.

Notes to the Financial Statements (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.

Funding Policy - 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 1.666 % of each participating employee's annual salary; each participating employee is required to contribute .8333% of their salary. In the Fiscal years ending June 30, 2011 through June 30, 2013 the contribution rates will rise as follow:

<u>Fiscal Year</u>	<u>Employer Rate</u>	<u>Employee Rate</u>
FY 12	1.834%	.917%
FY 13	2.000%	1.000%

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, 2011, 2010, and 2009 were \$37,756, \$32,852, and \$33,393 respectively, which equal the required contributions for each year.

Notes to the 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 \$5,349 of equipment during the year.

	Balance <u>6/30/10</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/11</u>
Furniture and equipment	\$ <u>196,516</u>	<u>5,349</u>	<u>24,699</u>	<u>177,166</u>
Accumulated depreciation	\$ <u>128,555</u>	<u>25,450</u>	<u>23,544</u>	<u>130,461</u>

Within the government wide financial statements, \$ 25,450 of depreciation has been recognized. Within the government wide financial statements expenses include \$1,154 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 (including payroll tax) and the related expenditure. The total of \$ 152,674 accrued leave liability plus \$11,680 payroll tax or \$164,354 is allocated \$11,505 to current liabilities and \$152,849 to long term liabilities. The committee decreased personnel services expense by \$81,056, and payroll tax expense by \$6,181, in accruing the compensated absence liability. The Committee paid \$112,589 in compensated leave and \$8,059 in sick leave in excess of 600 hours.

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 has been paid due to terminations and there is no residual pre 1/1/96 accrued leave. LFC paid out \$22,283 of pre 1996 accrued leave during the fiscal year.

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. Included in the above accrual is \$11,680 of payroll tax, \$147,112 annual leave, and \$5,562 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 rates for up to 120 hours on either July 1, or January 1, of each year. At retirement the employee may receive payment for up to 400 hours of sick leave. Additionally, LFC's policy allows supervisors to sell annual leave in excess of 600hrs at full hourly rate, provided there is sufficient budget.

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, 2011:

	<u>Balance</u> <u>6/30/10</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>6/30/11</u>	<u>Current</u> <u>Portion</u>	<u>Long</u> <u>Term</u>
Compensated absences payable and employer's share of FICA:						
Annual leave	\$225,652	34,049	112,589	147,112	10,298	136,814
Sick leave	8,059	5,562	8,059	5,562	389	5,173
FICA	<u>17,879</u>	<u>3,030</u>	<u>9,229</u>	<u>11,680</u>	<u>818</u>	<u>10,862</u>
Totals	<u>\$251,590</u>	<u>42,641</u>	<u>129,877</u>	<u>164,354</u>	<u>11,505</u>	<u>152,849</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 \$ 2,049.00 base lease plus usage in excess of contract amounts. The mailing machine lease calls for twelve monthly payments of \$74.23 then thirty six monthly payments of \$149.23. The committee paid \$26,376 in base lease payments during the year. The lease on the mailing machine will expire in September 2011. Management has paid its final quarterly payment through September. Following are the cash requirements for existing lease.

<u>Due June 30,</u>	<u>Mailing</u> <u>Machine</u>	<u>Copier</u>	<u>Total</u>
2012		24,585	24,585
2013		24,585	24,585
2014		24,585	24,585
2015			
There after	_____	_____	_____
Totals	\$ <u>-0-</u>	<u>73,755</u>	<u>73,755</u>

10. **Interest in the New Mexico General Fund Investment Pool:**

The Legislative Finance Committee's interest in the New Mexico State General Fund Investment Pool is on deposit with the New Mexico State Treasurer.

General Fund - Share Fund Account No. 11200 Fund 13000

	<u>Type of</u> <u>Account</u>	<u>Balance</u> <u>6/30/11</u>
N.M. State Treasurer	Operating	\$ 418,414

Notes to the Financial Statements (Continued)

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.

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	\$3,885,100	
	34101	34900		\$3,885,100
Reversion (10)	34101	85300	196,938	
	11200	13000	\$	196,938

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:

Accrued as due to state general fund at June 30, 2011	\$ 185,903
For the prior fiscal year ended June 30, 2010	\$ 196,938

14. **Estimates:**

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

Schedule of Memorandum of Understanding

Participants:

The Legislative Finance Committee, Department of Finance and Administration, Taxation and Revenue Department, and the Department of Transportation, (Agencies) enter into a reoccurring annual professional service contract with the University of New Mexico-Bureau of Business and Economic Research (BBER) to provide revenue forecasts, economic analysis and forecasts.

Party responsible for operations:

Each of the participants mentioned above is responsible for identifying their needs and accepting or declining the related goods and services. Additionally, they are responsible for their portion of the payment for these services.

Description:

This agreement provides for the purchase of four long-term, quarterly forecasts. Additional forecasts will be provided for an additional fee. The participating agencies will have web-access to national forecasting service subject to the Global Insight contract with UNM. BBER will prepare and present analysis of its forecasts, related changes and methodologies.

Beginning and ending dates:

The Memorandum of Understanding is for a fiscal year.

Total estimated amount of the project and Legislative Finance Committee's portion:

The entire agreement is for \$100,814. The Committee's portion is \$28,326.

Amount the Committee paid during the year ended June 30, 2011.

\$28,326.

Audit responsibility:

Within the Committee, LFC's Chief Economist is responsible for accepting or declining the product received and approving payment. There is no Fiscal Agent. The Committee reflects payment for these services in its contractual services category.

Gordon and Hale

PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS



Member

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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 (general 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, 2011, which collectively comprise the Committee's basic financial statements and have issued our report thereon dated October 3, 2011. 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 Committee'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.

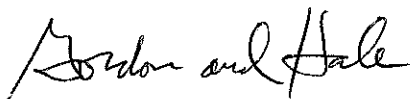
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Committee's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters 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.

A handwritten signature in cursive script that reads "Gordon and Hale".

Gordon and Hale, P.C.
October 3, 2011

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 October 18, 2011 to discuss this report. Representing the Legislative Finance Committee was Senator John Arthur - Chair, David Abbey-Director, and Jeannae L. Ledger-Administrator. Representing Gordon and Hale, P.C. was Gilbert Malone, CPA.

We wish to take this opportunity to thank Ms. Jeannae Ledger, and other staff for their assistance in the conduct of the audit.