

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR

Financial Statements
Year Ended June 30, 2009

(With Independent Auditor's Report Thereon)

**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
June 30, 2009**

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**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
June 30, 2009**

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**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR**

**Official Roster
June 30, 2009**

<u>Name</u>	<u>Title</u>
Hector H. Balderas	State Auditor
Carla Martinez, CPA	Deputy State Auditor
Antonio Corrales	Chief of Staff
Evan Blackstone	General Counsel
Tenanco Borrego	Special Projects Director
Rita Archuleta	Budget and Finance Director



**Macias, Gutierrez
& Co., P.C.**

*Certified Public Accountants
Member AICPA, NMSCPA*

1302 Calle De La Merced, Suite A
Española, New Mexico 87532
505.747.4415
Fax 505.747.4417

INDEPENDENT AUDITORS' REPORT

Honorable Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, the major fund and the budgetary comparison statement for the general fund of the State of New Mexico, Office of the State Auditor (Office) as of and for the year ended June 30, 2009, which collectively comprise the Office's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the Office's general fund accounts and the respective budgetary comparisons presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Office'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Office are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities, the major fund, and the budgetary comparison statement for the General Fund that are attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2009, and the changes in its financial position and its cash flows, where applicable, 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 respective financial position of the governmental activities and the major fund of the State of New Mexico, Office of the State Auditor as of June 30, 2009, and the respective changes in financial position thereof and the budgetary comparison statement for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each general fund account of the Office as of June 30, 2009, and the respective changes in financial position thereof, and the respective budgetary comparisons of each general fund account 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 30, 2009 on our consideration of the Office's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages vii through xvi 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 Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Macias, Gutierrez & Co., CPAs, P.C.

Macias, Gutierrez & Co., CPAs, P.C.
Española, New Mexico
October 30, 2009

Management's Discussion and Analysis

The Office of the State Auditor's (Office's) discussion and analysis is provided as an overview of the financial activities of the Office for the fiscal year ended June 30, 2009.

The Basic Financial Statements

In compliance with requirements of accounting principles generally accepted in the United States of America (GAAP) the Office's basic financial statements include the:

- Government-wide financial statements;
- Fund financial statements;
- Budget comparison statement; and
- Notes to the financial statements.

In compliance with New Mexico Administrative Code (NMAC) Section 2.2.2.10 A. (2)(d) the audit opinion also covers additional information consisting of:

- Combining financial statements, and
- Individual fund budget comparison statements.

The Management's Discussion & Analysis (MD&A) is included as required supplementary information (RSI).

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Office's finances, in a manner similar to private-sector business reporting. These statements report information about the overall government without displaying individual funds or fund types. They distinguish between governmental activities and business-type activities. However, the Office does not have any business-type activities to report.

The *statement of net assets* inclusively presents current and long-term assets and liabilities, with the difference between the assets and liabilities reported as net assets. The *statement of activities* presents all changes in net assets as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are included in this statement for some items that will only result in cash flows in future fiscal periods, like uncollected receivables (even if the "available" criteria is not met) and earned but unused employee leave liabilities.

The Fund Financial Statements

The fund financial statements are used to report additional and detailed information. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are used to ensure and demonstrate

compliance with finance-related legal requirements. The Office has only one governmental-type fund, the general fund. The governmental fund reporting focus is primarily on the sources, uses, and balances of current financial resources and has a budgetary orientation.

A summary reconciliation to the government-wide financial statements is presented at the bottom of the fund financial statements.

The Budget Comparison Statement

The budget comparison statement presents the original and final appropriated budget for the reporting period as well as actual inflows and outflows stated on the budgetary basis. A separate column reports the variance between the final budget and actual amounts. In compliance with New Mexico Administrative Code (NMAC) Section 2.2.2.10.O.(1) through (3) the *Statement of Revenues and Expenditures – Budget and Actual*:

- Includes prior-year fund balance required to balance the budget;
- Has been included as part of the basic financial statements; and
- Has been included in the auditor’s opinion.

The Office general fund consists of two individual Statewide Human Resources Accounting and Management Reporting System (SHARE) funds. Therefore, two individual fund budget comparison statements have been included following the combining statements in order to demonstrate budget compliance at the SHARE fund level, and to comply with the audit scope requirements of Section 2.2.2.10.A(2)(d) of NMAC.

Government-wide condensed financial information is displayed in the tables below. Comparative information from the previous fiscal year is included for the reader’s information.

Office of the State Auditor’s Net Assets

	FY 2009	FY 2008	Change
Petty Cash	\$ 100	\$ 100	\$ -
Investment in General Fund Investment Pool	1,486,316	1,792,047	(305,731)
Due from state agencies	249	30,000	(29,751)
Capital assets net of depreciation	22,921	22,574	347
Total assets	<u>\$ 1,509,586</u>	<u>\$ 1,844,721</u>	<u>\$ (335,135)</u>

Office of the State Auditor's Net Assets (Continued)

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Change</u>
Accounts payable	\$ 51,747	\$ 119,693	\$ (67,946)
Accrued salary & employee benefits	109,278	94,042	15,236
Due to State General Fund	289,676	115,696	173,980
Due to other state agencies		1,771	(1,771)
Compensated absences – current	165,409	109,935	55,474
Total liabilities	<u>616,110</u>	<u>441,137</u>	<u>174,973</u>
Net assets, invested in capital assets	22,921	22,574	347
Net assets, restricted	-	315,622	(315,622)
Net assets, unrestricted	<u>870,555</u>	<u>1,065,388</u>	<u>(194,833)</u>
Total net assets	<u>\$ 893,476</u>	<u>\$ 1,403,584</u>	<u>\$ (510,108)</u>

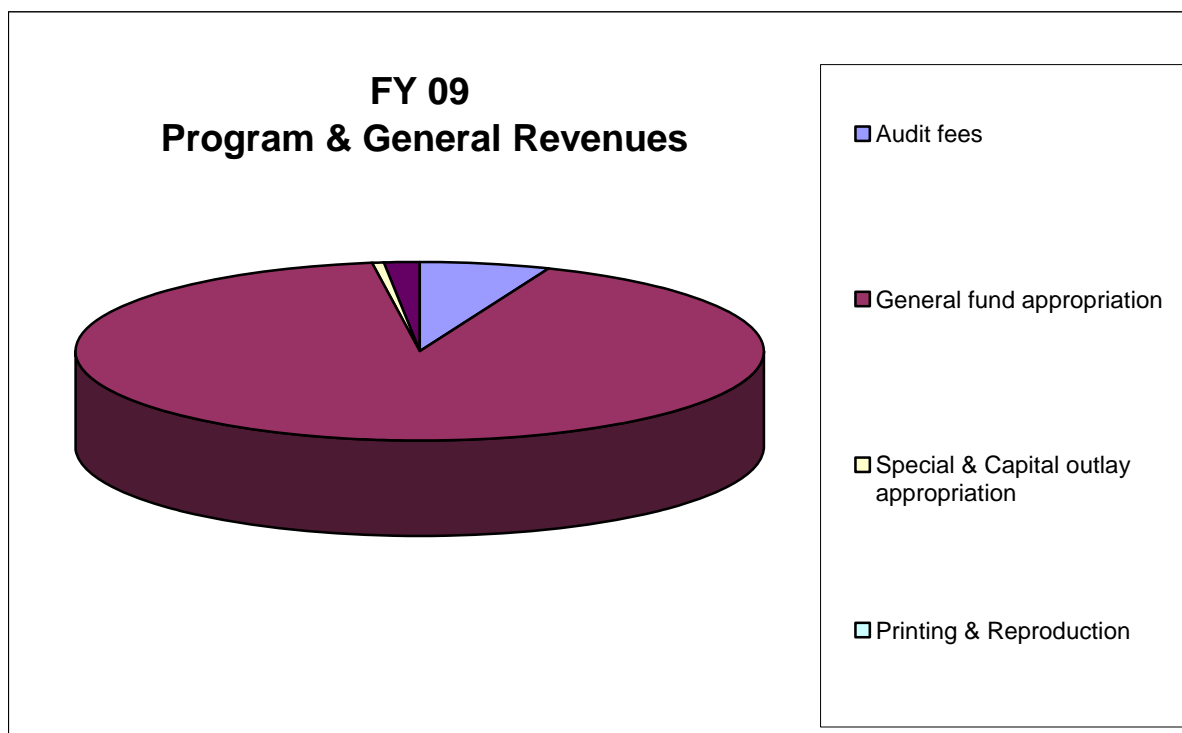
The unrestricted net asset amount of \$870,555 is available to be used to meet the Office's ongoing obligations to citizens and creditors.

Office of the State Auditor's Changes in Net Assets

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Change</u>
Program revenues			
Audit services	<u>\$ 169,519</u>	<u>\$ 438,942</u>	<u>\$ (269,423)</u>
General revenues			
State general fund appropriation, net	2,497,027	2,493,904	3,123
Special general fund appropriation	10,000	100,000	(90,000)
		-	
Other Revenues	560	554	6
State general fund compensation appropriation	<u>48,600</u>	<u>81,500</u>	<u>(32,900)</u>
Total general revenues	<u>2,556,187</u>	<u>2,675,958</u>	<u>(119,771)</u>
Total program and general revenues	<u>2,725,706</u>	<u>3,114,900</u>	<u>(389,194)</u>

The Office's Program and General Revenues for fiscal year ended June 30, 2009 are depicted in the chart below.

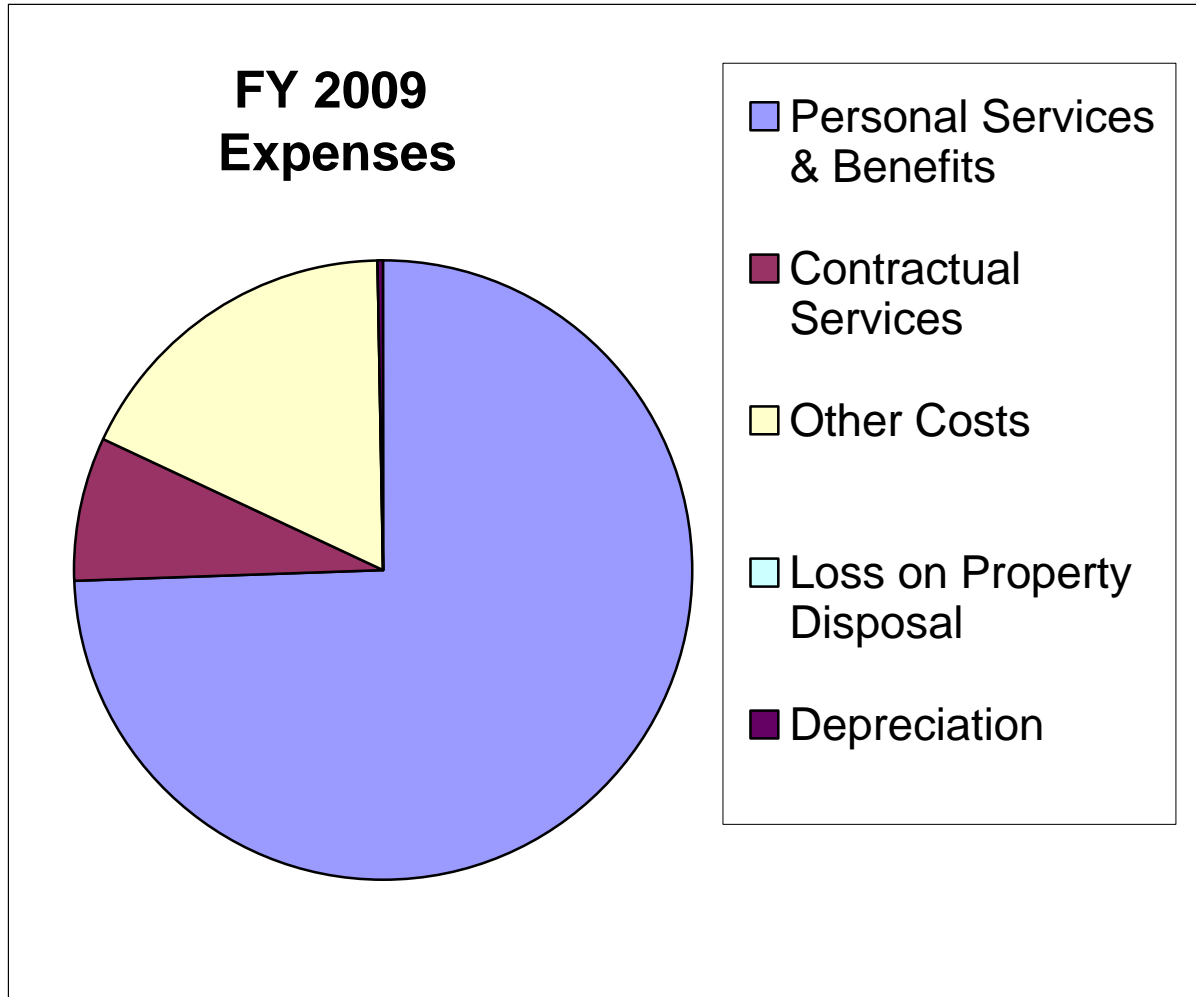
For the purpose of satisfying the performance measure of generating \$400,000 of audit fees in FY09, the Office earned \$169,519 auditing the City of Albuquerque, and \$300,000 from the special appropriations for the audits of the regional housing authorities. The special appropriation cash and related “revenue” were recorded in FY07 \$200,000 and FY08 \$100,000.



Office of the State Auditor’s Changes in Net Assets (Continued)

	FY 2009	FY 2008	Change
Program expenses			
Personal services & benefits	\$ 2,409,160	\$ 2,254,239	\$ 154,921
Contractual services	244,844	257,627	(12,783)
Other costs	570,289	422,714	147,575
Loss on disposition of property	2,463	1,537	926
Depreciation	9,058	18,273	(9,215)
Total program expenses	3,235,814	2,954,390	281,424
Change in net assets	(510,108)	160,509	(670,617)
Beginning net assets	1,403,584	1,243,075	160,509
Ending net assets	\$ 893,476	\$ 1,403,584	(510,108)

Office of the State Auditor expenses by category for the fiscal year ended June 30, 2009 appear in the chart that follows.



Financial Analysis of the Fund Financial Statements

As noted earlier, the Office uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, providing useful information on near-term inflows, outflows, and balances of available resources (modified accrual basis). Unreserved fund balance serves as a measure of net resources available for future appropriation. Because unexpended unencumbered balances in SHARE fund 11100 (Administrative Account) must revert to the State General Fund, the unreserved fund balance will be zero unless there were accounts payable at year end that did not get paid within the 31 days after fiscal year end, allowed by statute. Any accounts payable amounts not paid within the 31 day limit must be paid out of the next years' budget, creating a negative fund balance at the end of the fiscal year. SHARE fund 11200 (IPA Account) is non-reverting; therefore, the unreserved balance is available for future appropriation.

Fund balances that are reserved are not available because they have already been committed for the petty cash fund, or have been budgeted by the legislature for expenditure in subsequent years.

The composition of the fund balance reservations at the end of the current and prior fiscal years appears below:

	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
Petty Cash	\$ 100	\$ 100	\$ 100
Subsequent years	418,100	533,022	473,900
Unreserved-undesignated	<u>617,764</u>	<u>927,823</u>	<u>843,529</u>
Total Fund Balance	<u>\$ 1,035,964</u>	<u>\$ 1,460,945</u>	<u>\$ 1,317,529</u>

The fund balance available (modified accrual basis) for appropriation in future fiscal years (unreserved-undesignated) that was generated from audit fees earned by the Office:

- Increased from FY07 to FY08 by \$ 84,294; and
- Decreased from FY08 to FY09 by \$ (310,059).

The large decrease in unreserved-undesignated fund balance is related to fact that expenditures in fund 112 exceeded revenue by \$109,360 in FY09, and the significant increase from \$217,000 to \$418,100 in fund 112 fund balance appropriated in FY10.

During the same period of time, audit fee revenue on the modified accrual basis increased \$159,893 between FY07 and FY08; and decreased \$211,674 between FY08 and FY09.

Audit Fee Revenue (Modified Accrual Basis)

	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
Audit Fee Revenue	<u>\$ 199,519</u>	<u>\$ 411,193</u>	<u>\$ 251,300</u>

In FY08 the Office earned revenue from the joint financial audit of the City of Albuquerque in the amount of \$107,255 and from the financial audit of the NM Department of Taxation & Revenue of \$300,000. The Office also received \$3,938 from performing special audits.

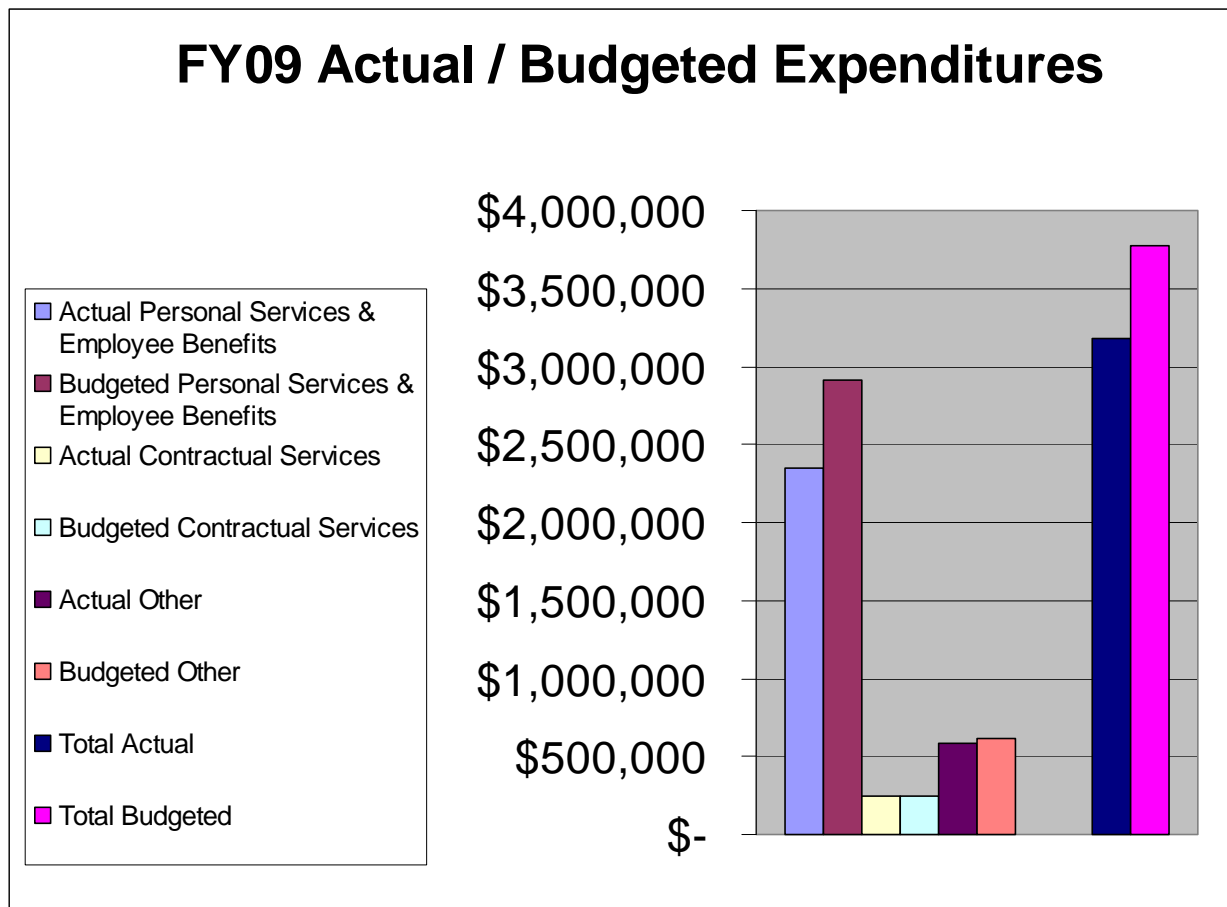
In FY09 the Office earned revenue from the joint financial audit of the City of Albuquerque of \$199,519. It should also be noted that in FY09 the office performed the audits of various regional housing authorities for which the Legislature had appropriated \$300,000 in special appropriations. For accounting purposes, the special appropriations were brought forward into FY09 as part of the fund balance in fund 11100.

General Fund Budgetary Highlights

The original budget for fund 11200 was not adjusted during the fiscal year. The original budget for fund 11100 was adjusted as follows during FY09, due to the 2.5% reduction caused by Laws of 2009, Chapter 2, (House Bill 10).

- Personal services and employee benefits were decreased by (\$60,700);
- Contractual services were decreased by (\$6,400);
- Other costs were decreased by (\$6,300).

See Exhibit E in the financial statements section for the Statement of Revenues and Expenditures – Budget and Actual. The following chart also reflects the actual to budget comparisons for the fiscal year.



Capital Assets

The Office's investment in capital assets, net of accumulated depreciation is \$22,921. There is no debt related to these capital assets. During the fiscal year, the Office disposed of \$43,264 of capital assets, with related accumulated depreciation of \$40,800, for a loss of \$2,464.

The Office purchased new furniture and some equipment for the Albuquerque and Santa Fe offices during FY09. However, only the large conference table in the new Santa Fe office that cost \$6,419 and a Cisco Switch for the server room that cost \$5,450 met the capitalization threshold.

Depreciation expense for the year was \$10,596; to which we added an immaterial prior period difference of (\$1,538) for a total of \$9,058. The investment in capital assets, net of accumulated depreciation changed from \$22,574 to \$22,921 for a net increase of \$347.

Long-term Debt

The Office's compensated absences liability of \$165,409 as of June 30, 2009 was estimated to be entirely due within one year. Therefore, the Office had no long term debt at the end of the fiscal year.

The Political Environment and Next Year's Budget

State of New Mexico revenues have decreased in recent years due to the world-wide economic downturn since September 2008. The total budget for the Office in FY10 is \$3,270,200. That is a decrease of \$508,722 from the previous year's total adjusted budget of \$3,778,922. That is a 13% decrease in total budget for the Office from the previous year.

The Legislature has approved a budget for FY10 that reflects a 22% decrease in general fund appropriations (when the special appropriations are included) to the Office in fund 11100 as follows. Without the special appropriations which are nonrecurring, the decrease was 13.5%

Fund 11100	<u>FY10 Budget</u>	<u>FY09 Budget</u>	<u>Change</u>
Personal Services & Employee Benefits	\$ 2,098,800	\$ 2,633,110	\$ (534,310)
Contractual Services	209,300	248,600	(39,300)
Other	<u>144,000</u>	<u>278,812</u>	<u>(134,812)</u>
Total	<u>\$ 2,452,100</u>	<u>\$ 3,160,522</u>	<u>\$ (708,422)</u>

As a result of this decrease in general fund appropriations, an increased percentage of the budget in FY10 for the Office is expected to come from the fund 11200 fund balance. The fund 11200

portion of the budget increased \$199,700 over the prior year amount of \$618,400, for a 32% increase on FY10.

Fund 112	<u>FY10 Budget</u>	<u>FY09 Budget</u>	<u>Change</u>
Personal Services & Employee Benefits	\$ 480,500	\$ 280,800	\$ 199,700
Contractual Services	-	-	-
Other	<u>337,600</u>	<u>337,600</u>	<u>-</u>
Total	<u>\$ 818,100</u>	<u>\$ 618,400</u>	<u>\$ 199,700</u>

Due to implementation of the Accountability in Government Act (AGA), Chapter 15, Laws of 1999, six performance measurements were incorporated into the appropriation for the Office for the first time in fiscal year 2003. The measures and related results for fiscal year 2009 are shown below. Fiscal year 2010 target measures are reflected in the column at the far right.

<u>Performance Measure</u>	<u>FY09 Target Measures</u>	<u>FY09 Results</u>	<u>FY10 Target Measures</u>
Output: Total audit fees generated	\$400,000	\$432,000	\$400,000
Outcome: Percent of audits completed by regulatory due date	80%	72%	80%
Output: Number of training sessions performed	16	24	16
Outcome: Percent of statutory reviews of audit reports completed within ten days	75%	33%	75%
Efficiency: Percent of agency auditor selection requests processed within five days of receipt	100%	99%	100%
Number of independent public accountant working paper reviews	45	45	45

The \$432,000 of audit fees shown above consists of \$169,519 earned by performing a joint audit of the City of Albuquerque, \$300,000 of special appropriations for auditing the regional housing authorities (less \$24,378 pertaining to FY08, less \$18,796 reverted after FY09), and \$10,000 of

special appropriation for audits of land grants (less a \$700 decrease due to Laws of 2009 HB 10 which was reverted during FY09, less \$3,793 reverted at the end of FY09) resulting in total revenue of \$431,852. Seventy-two percent of audits were completed by the regulatory due date in FY09. Thirty-three percent of the statutory reviews of audit reports were completed within the required ten days.

The Office performs special fraud and financial audits of governmental agencies. The Office receives numerous notifications regarding alleged fraud in governmental agencies. These complaints are carefully prioritized so the limited personnel resources of the Office can be directed to follow up with special audits of only the most pressing public needs. Office personnel also perform annual financial and compliance audits of governmental agencies under generally accepted auditing standards that are continually being updated. Staff must receive continuing professional education each year in order to stay abreast of these changes and maintain required credentials. The increased complexity of these standards and the requirements for additional documentation cause these annual financial and compliance audits to consume much staff time.

A major issue for the Office is the recruitment and retention of government auditors and certified fraud examiners. The Office is working to increase the quality of financial reports and financial accountability of government entities. The Office:

- Annually publishes regulations regarding contracting and conducting audits of governmental agencies;
- maintains a formal quality control review process to ensure that auditing and accounting standards are adhered to;
- provides technical advice to government entities and certified public accounting firms auditing government agencies.

The Office has increased its focus on government accountability with the Fraud and Special Audit Division. That emphasis is requiring a number of professional services contracts to manage and promote a statewide fraud hotline service. The Office emphasizes participation with the attorney general, district attorneys and law enforcement in addressing alleged criminal violations by government agencies in the realm of financial affairs.

Requests for Information

This financial report is designed to provide a general overview of the Office of the State Auditor finances for all those interested in the Office finances. If you have questions about this report or need additional information, contact:

The Office of the State Auditor
2540 Camino Edward Ortiz, Suite A
Santa Fe, NM 87507

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR

Exhibit A

Statement of Net Assets
June 30, 2009

	<u>Governmental Activities</u>
ASSETS	
Petty Cash	\$ 100
Investment in General Fund Investment Pool (note 2)	1,486,316
Accounts receivable, net of allowance (note 3)	-
Due from other state agencies (note 4)	249
Capital assets, net of accumulated depreciation (note 5)	<u>22,921</u>
Total assets	<u>1,509,586</u>
LIABILITIES	
Accounts payable	51,747
Payroll benefits payable	38,015
Payroll taxes payable	22,203
Accrued salaries	49,060
Due to State General Fund (note 8)	289,676
Compensated absences: (note 6)	
Due within one year	<u>165,409</u>
Total liabilities	<u>616,110</u>
NET ASSETS:	
Invested in capital assets (note 5)	22,921
Restricted	-
Unrestricted	<u>870,555</u>
Total net assets	<u>\$ 893,476</u>

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

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR

Exhibit B

Statement of Activities
For the Year Ended June 30, 2009

	Governmental Activities
Expenses:	
General government - audit services	
Personal services & employee benefits	\$ 2,409,160
Contractual services	244,844
Other Costs	570,289
Depreciation	9,058
Total program expenses	3,233,351
Program revenues:	
Charges for audit services	169,519
Printing and reproduction	560
Total program revenues	170,079
Net program expense	(3,063,272)
General revenues:	
State general fund appropriation (note 9)	2,787,000
Special general fund appropriation (note 9)	10,000
Compensation appropriation (note 9)	48,600
Reversions (note 8)	(289,973)
Total general revenues	2,555,627
Special item - loss on property disposition	(2,463)
Change in net assets	(510,108)
Net assets, beginning	1,403,584
Net assets, ending	\$ 893,476

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

**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Balance Sheet
Governmental Funds
June 30, 2009**

Exhibit C

	General Fund
ASSETS	
Petty Cash	\$ 100
Investment in General Fund Investment Pool (note 2)	1,486,316
Accounts receivable, net of allowance (note 3)	-
Due from Other State Agencies (note 4)	249
 Total assets	 \$ 1,486,665
LIABILITIES AND FUND BALANCES	
Accounts payable	\$ 51,747
Payroll benefits payable	38,015
Payroll taxes payable	22,203
Accrued salaries	49,060
Due to state general fund (note 8)	289,676
 Total liabilities	 450,701
FUND BALANCES	
Fund balances:	
Reserved for petty cash	100
Reserved for subsequent year expenditures	418,100
Unreserved-undesignated	617,764
 Total fund balances	 1,035,964
 Total liabilities and fund balances	 \$ 1,486,665

Amounts reported in the statement of net assets differ because:

Total fund balances	\$ 1,035,964
Capital assets reported in governmental activities are not financial resources and therefore are not reported in the funds	22,921
Compensated absences accrued in the government-wide financial statements but not due and payable at fiscal year end	(165,409)
 Net assets per Statement of Net Assets	 \$ 893,476

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

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	<u>General Fund</u>
Revenues:	
Charges for audit services	\$ 199,519
Other	560
Total revenues	<u>200,079</u>
Expenditures:	
General government:	
Current:	
Personal services & employee benefits	2,353,686
Contractual services	244,844
Other costs	570,290
Capital outlay	<u>11,868</u>
Total expenditures	<u>3,180,688</u>
Excess (deficiency) of revenues over expenditures	<u>(2,980,609)</u>
Other financing sources (uses):	
State general fund appropriation (note 9)	2,787,000
Special general fund appropriation (note 9)	10,000
Compensation appropriation (note 9)	48,600
Reversions to State General Fund (note 8)	<u>(289,973)</u>
Total other financing sources (uses)	<u>2,555,627</u>
Net change in fund balances	(424,982)
Fund balance, beginning	<u>1,460,946</u>
Fund balance, ending	<u>\$ 1,035,964</u>

Amounts reported in the Statement of Activities are different because:

Net change in fund balances	\$ (424,982)
Increase since PY in capital assets net of accumulated depreciation	347
Net change in compensated absences	(55,473)
Change in deferred revenue	<u>(30,000)</u>
Change in net assets of governmental activities	<u>\$ (510,108)</u>

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

**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
All General Fund Accounts
Statement of Revenues and Expenditures - Budget and Actual
For the Year Ended June 30, 2009**

Exhibit E

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State General Fund:				
General fund appropriation	\$ 2,859,700	\$ 2,788,200	\$ 2,787,000	\$ (1,200)
Compensation appropriation	49,600	48,400	48,600	200
Special Appropriation Laws of 2008, Chapter 6	10,000	9,300	10,000	700
Charges for audit services	400,000	400,000	169,519	(230,481)
Miscellaneous revenue	-	-	560	560
	<u>3,319,300</u>	<u>3,245,900</u>	<u>3,015,679</u>	<u>(230,221)</u>
Fund Balance Budgeted:				
Special Appropriation Laws of 2008, HB 8, Sec 8	175,622	175,622	175,622	-
Special Appropriation Laws of 2008, Chap 3, Sec 5	100,000	100,000	100,000	-
Special Appropriation Laws of 2007, Chap 42, Sec 37	40,000	40,000	40,000	-
Fund 11200 Fund Balance	217,400	217,400	139,078	(78,322)
	<u>533,022</u>	<u>533,022</u>	<u>454,700</u>	<u>(78,322)</u>
Total budgeted revenue and fund balance	<u><u>\$ 3,852,322</u></u>	<u><u>\$ 3,778,922</u></u>	<u><u>\$ 3,470,379</u></u>	<u><u>\$ (308,543)</u></u>
Expenditures and other uses:				
General government:				
Personal services & employee benefits	\$ 2,974,610	\$ 2,913,910	\$ 2,353,687	\$ 560,223
Contractual services	255,000	248,600	244,844	3,756
Other	622,712	616,412	581,875	34,537
	<u>\$ 3,852,322</u>	<u>\$ 3,778,922</u>	<u>\$ 3,180,405</u>	<u>\$ 598,517</u>

The accompanying notes are an integral part of the financial statements

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1. Summary of Significant Accounting Policies

The financial statements of the Office of the State Auditor (Office) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Office's accounting policies are described below:

A. Financial Reporting Entity

The Office is an elective office established by the Constitution of the State of New Mexico, Article V, Section 1, as adopted in 1912 as part of a plural executive. The State Auditor is elected to a four-year term and can serve two terms in office. After an intervening term, the State Auditor could serve again. The functions of the State Auditor are defined in Section 12-6-1 through 12-6-14 NMSA, 1978 as amended, also known as the Audit Act. The State Auditor or his designee is required by statute to examine and audit the financial affairs of every agency every year. In addition to the annual audit, the State Auditor may cause the financial affairs and transactions of an agency to be audited in whole or in part.

The Office is a department of the primary government, the State of New Mexico. These financial statements present the financial position and results of operation of only those Statewide Human Resources Accounting and Management Reporting System (SHARE) funds for which the State Auditor has oversight responsibility. The Office does not have any component units.

The State Auditor has decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

B. Government-wide and fund financial statements

The **government-wide financial statements**, the statement of net assets and the statement of activities, report information on all of the nonfiduciary activities of an agency. The Office does not have any fiduciary activities. When applicable, the effect of interfund activity between the two SHARE funds that make up the general fund (administrative account fund 11100 and independent public accounting fund 11200) is removed from the statement of net assets in order to avoid a grossing-up

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effect on assets and liabilities within the statement. The Office does not have any business-type activities, therefore only governmental activities are shown. Governmental activities are normally supported by taxes and intergovernmental revenues.

The **Fund financial statements**, the balance sheet and the statement of revenues, expenditures, and changes in fund balances, are presented to report additional and detailed information about the Office. The Office has only one type of fund financial statement, a governmental fund; and it has only one type of governmental fund, its general fund. The general fund is the Office operating fund and includes all financial transactions conducted to fulfill the general government function of complying with the Audit Act. It accounts for all financial resources of the Office.

C. Measurement focus, basis of accounting, and financial statement presentation

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting is related to the timing of the measurements made, regardless of the measurement focus applied.

The **government-wide financial statements** are reported using the economic resources measurement focus and 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. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Program revenues consist of audit fees earned from audit services provided by the Office. Capital assets are reported at historical cost and depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are included on the balance sheet. The reported fund balance is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Revenues are recognized as soon as they are both measurable and available. Revenues are available if collectible within the current period or soon enough afterwards to pay liabilities of the current period.

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The Office considers audit fee revenues to be available if collected within sixty days of the end of the fiscal year. Expenditures are recorded when a liability is incurred, as under accrual accounting. The Office does not have any debt service expenditures. Only the portion of current compensated absences related to payments due to retired or terminated employees as of June 30, 2009, but not paid until after the end of the fiscal year, is included in the fund financial statements.

For the fiscal year ended June 30, 2009, there were no receivables that were not collected within the 60 day period of availability after the end of the fiscal year. Therefore, there was no deferred revenue in the fund financial statements as of June 30, 2009.

D. Receivables and payables

Amounts “due to/from other general fund accounts” between the two SHARE funds 11100 and 11200 are netted for financial statement presentation when the funds are combined into the general fund. Any amounts “due to/from other state agencies” shown in the general fund reflect outstanding balances of receivables and payables between the Office and other departments of the State of New Mexico. Amounts shown as “Due to the State General Fund” reflect reversions for unexpended unencumbered appropriations and stale dated warrant amounts that must be paid to the State General Fund.

E. Capital assets

Capital assets of the Office include furniture and fixtures, information technology equipment (computers and peripherals, all equipment related to electronic communications), software, and a motor vehicle. The Office does not have any infrastructure. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of maintenance and repairs that do not add to the asset value or materially extend assets lives are not capitalized. The Office does not undertake major capital projects involving interest costs during the construction phase. There is no debt related to the Office’s capital assets. Pursuant to Section 12-6-10 NMSA 1978, movable chattels and equipment costing more than \$5,000 are capitalized. Capital assets of the Office are depreciated using zero salvage value and the straight line method over the following estimated useful lives:

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<u>Assets</u>	<u>Years</u>
Furniture and fixtures	10
Information technology equipment	5
Software	3
Motor vehicles	7

F. Budgets and Budgetary Accounting

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

1. No later than September 1st, the Office prepares a budget request by appropriation unit to be presented to the next legislature.
2. The appropriation request is submitted to the Department of Finance and Administration's Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which becomes the Governor's proposal to the Legislature.
4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both the DFA and LFC recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budgetary control is exercised by the Office at the appropriation unit level within each SHARE fund. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.
7. According to the General Appropriation Act, Laws of 2008, House Bill 2, for the purpose of administering the General Appropriation Act of 2008 and approving operating budgets, the state of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration. The only exception is amounts payable at June 30, 2009 that did not get paid by the statutory deadline after the end of the fiscal year. The cash to pay those payables is reverted to the State General Fund on September 30, 2009,

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creating a negative fund balance. Those payables must be paid out of the following year's budget after a request to pay prior year bills out of the current year budget has been approved by DFA.

8. The FY09 budget for fund 11100 was decreased by 2.5% by Laws of 2009 Chapter 2, House Bill 10. That amendment made changes to the following appropriation codes: a decrease to Personal Services and Benefits of \$60,700; a decrease to Contractual services of \$6,400, and a decrease to Other Costs of \$5,600.
9. Single-year appropriations lapsed at the end of the fiscal year. Accounts payable amounts related to goods and services received by June 30th that were paid within the 31 day statutory period are accrued as accounts payable in the budget basis expenditures. Accounts payable that were not paid within the 31 day statutory time period that require a request for approval to pay prior year bills with current year funds, will be paid out of the next year's budget.

In accordance with the requirements of Section 2.2.2.10.A(2)(b) of NMAC *Requirements for Contracting and Conducting Audits of Agencies* and the allowance made by GASBS 34 footnote 53, the budgetary comparison statement has been included as part of the basic financial statements.

G. Accrued Compensated Absences

Annual leave and other compensated absences with similar characteristics are accrued as a liability as benefits are earned by employees if: the employees' right to receive compensation is attributable to services already rendered; and it is probable that the employer will compensate employees for benefits through paid time off or some other means, such as cash payments at termination or retirement.

When applicable, the compensated absence liability is presented in two parts in the government-wide financial statements, a current portion and long-term portion. The current portion is the amount expected to be expended during the upcoming fiscal year.

Employees accumulate annual leave at a rate based on appointment date and length of continuous service. A maximum of 240 hours of annual leave may be carried forward after the pay period beginning in December and ending in January. When employees terminate, they are compensated at their current hourly rate for

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accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours.

Employees accumulate sick leave at a rate of 3.69 hours per pay period. There is no limit to the amount of sick leave that an employee may accumulate. State agencies are allowed to pay fifty percent of each employee's hourly rate for accumulated sick leave over 600 hours, up to 120 hours. Payment may be made only once per fiscal year at a specified pay period in either January or July. The Office has chosen to make such payments annually in January. Additionally, upon retirement, those employees with over 600 hours of accumulated sick leave have the option to convert 400 hours of such leave to cash at one half of their hourly rate.

Fair Labor Standards Act (FLSA) nonexempt employees accumulate compensation time at the rate of 1.5 times the number of hours worked, in excess of forty hours per week, based on their regular hourly rate. Exempt and classified employees who are FLSA exempt accumulate compensation time at the same rate as the number of hours worked. Exempt employees were precluded from carrying forward any unused compensation time into the next calendar year after December 31, 2003. Overtime must be pre-approved by management. Payment of this liability can be made by compensated leave time or cash payment. At June 30, 2009, the liability for compensation time owed to twenty-two employees totaled \$ 31,379.

In accordance with GASBS 16, accrued compensated absences consist of accumulated annual leave, sick leave between 600 and 720 hours, and compensatory leave for employees, including the related employer's matching FICA and Medicare payroll taxes.

H. Reversions

The General Appropriation Act of 2008, Section 3, Subsection O, states that "For the purpose of administering the General Appropriation Act of 2008 and approving operating budgets, the state of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration." In accordance with the department of finance administration's "*Basis of Accounting-Modified Accrual and the Budgetary Basis*," the Office has accrued as payables, amounts owed for goods and services received by June 30, 2009. The account payable amounts that were not paid for within the 31 day statutory limit after the end of the fiscal year will have to be paid out of the following year's budget, creating a negative fund balance in fund 11100. Any remaining SHARE fund 11100 fund

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balance not reserved for petty cash or unexpended special or capital outlay appropriations reverts to the State General fund by September 30, 2009, in accordance with Section 6-5-10, NMSA 1978. Fund 11200 is nonreverting per Section 12-6-13 B, NMSA 1978.

I. Net Assets/Fund Equity

In the **government-wide financial statements** net assets consist of three components: invested in capital assets, net of related debt; restricted; and unrestricted. The Office has no debt related to capital assets; therefore, net assets invested in capital assets of \$22,921 equal the capital assets, net of accumulated depreciation.

Unrestricted net assets of \$870,555 make up the remaining net assets that were received or earned that have no explicit understanding between the Office and a resource provider (grantor, contributor, other government, or enabling legislation) that the funds are to be used for a specific purpose.

In the **fund financial statements**, reservations of fund balance are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Specific reservations of the fund balance account are summarized below:

Reserved for petty cash – Fund balance reserved for the amount of petty cash that is not appropriable; and

Reserved for subsequent year expenditures – In SHARE fund 11200 fund balance of \$418,100 is reserved for subsequent year expenditures, the amount of cash balance re-budgeted in fiscal year 2010 necessary to balance the general fund budget.

J. Policy Regarding FASB Pronouncements

Private-sector standards of accounting and financial reporting (FASB pronouncements) issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict GASB guidance. Governments also have the option of following subsequent FASB pronouncements for their government-wide financial statements. The Office has elected not to follow subsequent FASB guidance.

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2. Investment in State Treasurer’s General Fund Investment Pool

Cash accounts of the Office at June 30, 2009:

<u>Name of Account</u>	<u>SHARE Fund Name</u>	<u>SHARE Fund #</u>	<u>Balance Per Books</u>
Investment in General Fund Investment Pool	State Auditor Administration	11100	\$452,906
Investment in General Fund Investment Pool	State Auditor IPA- Audits	11200	<u>1,033,410</u>
Subtotal of Investments			1,486,316
Petty Cash			<u>100</u>
Total Investments and Petty Cash			<u>\$1,486,416</u>

All investments are on deposit with State Treasurer in the State General Fund Investment Pool (SGFIP), except the \$100 petty cash fund that is administered by the administrative services division. The State Treasurer has the authority to invest money held in demand deposits and not immediately needed for the operation of state government in securities in accordance with Sections 6-10-10 I through O, NMSA 1978 as amended. The State Treasurer, with the advice and consent of the state board of finance, can invest money not immediately needed for the operation of state government.

For additional disclosure information regarding the investment in the State Treasurer’s SGFIP, the reader should see the separate audit report for the State Treasurer’s Office for the fiscal year ended June 30, 2009, review the State Treasurer’s Investment Policy at <http://www.stonm.org/ReportsandPolicies/Policies>, and review Sections 2.60.4.1 through 2.60.4.15 of the New Mexico Administrative Code, regarding Investment of Deposits of Public Funds Depository Bank Requirements, Collateral Level Requirements, and Custodial Bank Requirements.

3. Accounts Receivable

Accounts receivable represent: professional fees for audits of governmental entities performed by staff of the Office of the State Auditor earned but not yet collected totaling \$11,164; and a related allowance for doubtful accounts of \$11,164.

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4. Due from Other State Agencies

The \$249 amount that is due from other state agencies is related to Office payroll liability payments made by DFA and the over repayment thereof.

5. Changes in Capital Assets

Summaries of changes in capital assets and accumulated depreciation follow:

Historical Cost	Balance				Balance
	6/30/08	Adjustments	Additions	Deletions	
Furniture and fixtures	\$ 12,425	-	\$ 6,419	\$ -	\$ 18,844
Info Technology Equipment	128,168	-	5,450	41,553	92,065
Software	19,789	-	-	1,711	18,078
Motor Vehicle	14,711	-	-	-	14,711
Totals	\$ 175,093		\$ 11,869	\$ 43,264	\$ 143,698
Related Depreciation	Balance				Balance
	6/30/08	Adjustments	Additions	Deletions	
Furniture and fixtures	\$ 9,671	-	\$ 878	\$ -	\$ 10,549
Info Technology Equipment	108,348	(1,538)	9,718	39,089	77,439
Software	19,789	-	-	1,711	18,078
Motor Vehicle	14,711	-	-	-	14,711
Totals	\$ 152,519	\$ (1,538)	\$ 10,596	\$ 40,800	\$ 120,777
Assets, net of Depreciation	Balance				Balance
	6/30/08	Adjustments	Additions	Deletions	
Furniture and fixtures	\$ 2,754	-	\$ 5,541	\$ -	\$ 8,295
Info Technology Equipment	19,820	1,538	(4,268)	(2,464)	14,626
Software	-	-	-	-	-
Motor Vehicle	-	-	-	-	-
Totals	\$ 22,574	1,538	1,273	\$ (2,464)	\$ 22,921

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6. Changes in Compensated Absences

A summary of changes in the current and long-term portions of compensated absences follows:

	Balance 7/1/08	Increase	(Decrease)	Balance 6/30/09	Amount Due in 1 Year
Annual Leave	95,986	108,855	(70,811)	134,030	134,030
Sick Leave	774	-	(774)	-	-
Comp-Time	13,175	118,422	(100,218)	31,379	31,379
Total Compensated Absences	109,935	227,277	(171,803)	165,409	165,409

The compensated absences liabilities are based on balances in the SHARE Leave Liability Report plus the applicable employer FICA taxes.

Compensated absences are usually paid with general fund appropriations out of the administrative account, SHARE fund 11100.

7. Operating Leases

The Office had ten operating leases at June 30, 2009 for the following items: a Pitney Bowes postage meter; two Xerox photocopiers; four vehicles leased from General Services Department, and three office building leases. The postage meter lease was signed June 12, 2007 and has payments of \$532.02 to be paid quarterly through June 2011. The Office obtained two leased Xerox photocopiers on July 3, 2007. The payments for the large copier are \$835 per month through June 2012. The payments for the smaller copier are \$248 per month, also ending June 2012. The lease for the Dodge Durango costs \$459 per month and expires June 2012. The leases for two Dodge vans cost \$730 per month and expire September 30, 2011. The lease for the fourth vehicle, also a Dodge van, costs \$365 per month and expires December 2011.

In August of 2008, the Office entered into lease agreement for office space in Albuquerque. The term of the lease is for ten years from November 1, 2008 through December 1, 2018. The monthly lease payment will be \$6,250 for July 2009 through October 2009. It goes up to \$6,318 per month for the remainder of FY10.

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In October of 2008, the Office entered into a lease agreement for new office space to be built at 2540 Camino Edward Ortiz, Suite A, Santa Fe. The term of the lease is from March 1, 2009 through February 29, 2019. The Office began occupying that space in August 2009. The monthly lease payments will be \$15,833 from August 2009 through February 2010, and then \$16,067 from March through June 2010. The final lease payments for the old office space at 2113 Warner Circle, Santa Fe, were made to the lessor in July and August 2009, and totaled \$21,790.

Future minimum annual payments under the operating leases described above are as follows:

Year Ending June 30	Amount
2010	322,028
2011	303,895
2012	296,773
2013	277,778
2014	281,773
2015-2019	1,318,468
Total	\$ 2,800,715

8. Due to State General Fund

The following is a summary of the determination of the amount Due to the State General Fund at June 30, 2009, from the General Administration Account (Fund 11100):

Petty cash and investment in general fund investment pool, June 30, 2009 (Administration Account, Fund 11100)	\$ 453,006
Plus: Due from other state agencies, June 30, 2009	10
Less: Accounts payable, June 30, 2009	(35,850)
Payroll benefits payable, June 30, 2009	(38,015)
Payroll taxes payable, June 30, 2009	(22,203)
Accrued salaries, June 30, 2009	(49,060)
Reserve for petty cash, June 30, 2009	(100)
Due to other general fund accounts, June 30, 2009	(18,112)
Due to State General Fund, June 30, 2009	\$ 289,676

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The sources of the reversion amounts by budget fiscal year and appropriation are:

FY09 unencumbered unexpended general fund appropriation	\$ 266,634
FY09 revenue from printing and reproduction	20
FY07 capital outlay appropriation	30
FY08 special appropriation for land grants (budget reduction)	700
FY08 special appropriation for land grants	3,793
FY08 special appropriation for regional housing authorities	18,796
Total Reversions	\$ 289,973

9. Transfers

There was an \$18,112 transfer between SHARE fund 11100 and 11200 to reimburse fund 11200 for paying for some expenditures related to the special appropriation for the audit of the regional housing authorities. Those special appropriations were budgeted in fund 11100, the related cash was received in fund 11100, and therefore all the related expenditures needed to be recorded in fund 11100.

The Office received the following cash transfers from other state agencies during the fiscal year:

Agency	Transferring Fund from/to	Transfer Amount	Purpose of the Transfer
DFA	85300/11100	\$ 2,787,000	Appropriation allotments
DFA	62000/11100	48,600	Compensation appropriation
DFA	85300/11100	10,000	Special appropriation for land grants

The office made the following transfers to the State General Fund (85300) for reversions during FY09.

Date	Transferring Fund from/to	Transfer Amount	Purposes of the Transfers were Reversions
9/08	11100/85300	\$ 83,611	To DFA State General Fund – FY 08
4/09	11100/85300	700	Land grant appropriation – FY09
6/09	11100/85300	32,086	To DFA State General Fund – FY08

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10. Pension Plan – Public Employees Retirement Association

Plan Description. Substantially all of the Office of the State Auditor’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, 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 7.42% of their gross salary. The Office of the State Auditor is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Office of the State Auditor are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Office’s contributions to PERA for the fiscal years ending June 30, 2009, 2008, and 2007 were \$284,846, \$271,417, and \$221,583 respectively, which equal to the amount of the required contributions for each fiscal year.

11. Post-Employment Benefits – State Retiree Health Care Plan

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time, made contributions as a participant in the RHCA PLAN on the person’s behalf, unless that person retires before the employer’s RHCA effective date, in which event the time period

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for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. 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 Office contributions to the RHCA for the years ended June 30, 2009, 2008 and 2007 were \$21,408, \$18,984, and \$17,323, respectively, which equal the required contributions for each year.

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12. Risk Management and Litigation

The Office is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Section 15-7-2 NMSA 1978 requires the General Services Department, Risk Management Division (RMD) to be responsible for the acquisition and administration of all insurance purchased by the state. Since 1977, various state statutes have been passed which allow RMD to insure, self-insure or use a combination of both. Risk management expenditures for the Office are accounted for in the general fund. Any claims are processed through RMD. There are no pending or known threatened legal proceedings involving material matters to which the Office is a party. However, the Office is in litigation related to a matter that will not have any impact on the Office's presentation of the financial statements.

13. Explanation of Differences Between SHARE general ledger, Budget Basis Amounts, and Financial Statement Modified Accrual Amounts

Total agency revenues per SHARE A611 Trial Balance Report and Budget Basis amounts		\$ 3,015,679
Amount of deferred revenue at 6/30/08 not posted to SHARE		30,000
Revenues per Modified Accrual Fund Financial Statements		\$ 3,045,679
Total agency expenditures per SHARE A611 Trial Balance Report and Budget Basis amount (Exhibit E)		\$ 3,180,405
Reversal of prior year accrual for Requests to Pay Prior Year Bills in FY09	\$ (317)	
Current year accrual for Requests to Pay Prior Year Bills in FY2010	600	
Total agency expenditures on the modified accrual basis		\$ 3,180,688

14. Special Appropriations

The Office received a \$200,000 appropriation per the Laws of 2007, Chapter 50, Section, for expenditures in fiscal years 2007 and 2008 for the purpose of conducting an accounting of all assets acquired by regional housing authorities pursuant to the Regional Housing Law. That appropriation was amended to extend through June 30, 2009 by Senate Bill 8, Laws of 2008. The Office also received a \$40,000 appropriation per the Laws of 2007, Chapter 42, to be expended in fiscal years 2007 through 2011 to purchase

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Notes to Financial Statements
June 30, 2009

office furnishings. The Office received a \$100,000 appropriation of general fund money in House Bill 2, Laws of 2008, to conduct complete financial audits of regional housing authorities. Laws of 2008, Chapter 6, Section 3 appropriated \$10,000 from the general fund to the State Auditor for expenditure in fiscal year 2009 to conduct audits of community land grants that receive public money. Any unexpended or unencumbered balance at the end of FY09 reverted to the State General Fund.

The status of the Office special appropriations as of June 30, 2009 is shown below.

Original Appropriation Amount	FY Cash was Received	Expended In Previous Years	Expended in Current Fiscal Year	Amount Encumbered At 6/30/09	Amount Reverted to or Payable to The State General Fund
200,000	FY07	24,378	175,622	-	-
40,000	FY08	-	39,970	-	30
100,000	FY08	-	81,204	-	18,796
10,000	FY09	-	5,507	-	4,493

**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR**

**Combining Balance Sheet - General Fund Accounts
June 30, 2009**

	SHARE FUND 11100 <u>Adm. Account</u>	SHARE FUND 11200 <u>IPA Account</u>	TOTAL GENERAL <u>FUND</u>
ASSETS			
Petty Cash	\$ 100	\$ -	\$ 100
Investment in General Fund Investment Pool	452,906	1,033,410	1,486,316
Accounts receivable (net of allowance for doubtful accounts)	-	-	-
Due from general fund accounts	-	18,112	18,112
Due from other state agencies	10	239	249
	<u>10</u>	<u>239</u>	<u>249</u>
Total assets	<u>\$ 453,016</u>	<u>\$ 1,051,761</u>	<u>\$ 1,504,777</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 35,850	\$ 15,897	\$ 51,747
Payroll benefits payable	38,015	-	38,015
Payroll taxes payable	22,203	-	22,203
Accrued salaries	49,060	-	49,060
Due to general fund accounts	18,112	-	18,112
Due to State General Fund	289,676	-	289,676
	<u>289,676</u>	<u>-</u>	<u>289,676</u>
Total liabilities	<u>452,916</u>	<u>15,897</u>	<u>468,813</u>
Fund balances:			
Reserved for petty cash	100	-	100
Reserved for subsequent year	-	418,100	418,100
Unreserved-undesignated	-	617,764	617,764
	<u>-</u>	<u>617,764</u>	<u>617,764</u>
Total fund balances	<u>100</u>	<u>1,035,864</u>	<u>1,035,964</u>
Total liabilities and fund balances	<u>\$ 453,016</u>	<u>\$ 1,051,761</u>	<u>\$ 1,504,777</u>

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

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - General Fund Accounts
For the Year Ended June 30, 2009

	SHARE FUND 11100 Adm. Account	SHARE FUND 11200 IPA Account	TOTAL GENERAL FUND
Revenues:			
Charges for audit services	\$ -	\$ 199,519	\$ 199,519
Printing and reproduction	20	540	560
Total revenues	20	200,059	200,079
Expenditures			
General government:			
Current:			
Personal services & employee benefits	2,353,289	397	2,353,686
Contractual services	244,844	-	244,844
Other costs	261,268	309,022	570,290
Capital outlay	11,868	-	11,868
Total expenditures	2,871,269	309,419	3,180,688
Excess (deficiency) of revenues over expenditures	(2,871,249)	(109,360)	(2,980,609)
Other financing sources (uses):			
State General Fund Appropriation	2,787,000	-	2,787,000
Special General Fund Appropriation	10,000	-	10,000
Compensation Appropriation	48,600	-	48,600
Reversion to State General Fund	(289,973)	-	(289,973)
Total other financing sources (uses)	2,555,627	-	2,555,627
Net change in fund balances	(315,622)	(109,360)	(424,982)
Fund balance, beginning	315,722	1,145,224	1,460,946
Fund balance, ending	<u>\$ 100</u>	<u>\$ 1,035,864</u>	<u>\$ 1,035,964</u>

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

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
General Fund - Administration Account (Fund 11100)
Statement of Revenues and Expenditures - Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State General Fund:				
General fund appropriation	\$ 2,859,700	\$ 2,788,200	\$ 2,787,000	\$ (1,200)
Compensation appropriation	48,600	47,400	48,600	1,200
Special Appropriation Laws of 2008, Chapter 6	10,000	9,300	10,000	700
Charges for Audit Services				
Miscellaneous revenue	-	-	20	20
Total budgeted revenues	<u>2,918,300</u>	<u>2,844,900</u>	<u>2,845,620</u>	<u>720</u>
Fund Balance:				
Special Appropriation Laws of 2008, HB 8, Sec 8	175,622	175,622	175,622	-
Special Appropriation Laws of 2008, Chap 3, Sec 5	100,000	100,000	100,000	-
Special Appropriation Laws of 2007, Chap 42, Sec 37	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Total budgeted fund balance	<u>315,622</u>	<u>315,622</u>	<u>315,622</u>	<u>-</u>
Total budgeted revenue and fund balance	<u>\$ 3,233,922</u>	<u>\$ 3,160,522</u>	<u>\$ 3,161,242</u>	<u>\$ 720</u>
Expenditures and other uses:				
General government:				
Personal services & employee benefits	\$ 2,693,810	\$ 2,633,110	\$ 2,353,289	\$ 279,821
Contractual services	255,000	248,600	244,844	3,756
Other	<u>285,112</u>	<u>278,812</u>	<u>273,136</u>	<u>5,676</u>
Total expenditures and other uses	<u>\$ 3,233,922</u>	<u>\$ 3,160,522</u>	<u>\$ 2,871,269</u>	<u>\$ 289,253</u>

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
General Fund - IPA Account (Fund 11200)
Statement of Revenues and Expenditures - Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State General Fund:				
Compensation appropriation	\$ -	\$ -	\$ -	\$ -
Charges for audit services	1,000	1,000	-	(1,000)
Miscellaneous revenue	-	-	-	-
	400,000	400,000	169,519	(230,481)
	-	-	540	540
Total revenues	401,000	401,000	170,059	(230,941)
Prior-year funds re-budgeted	217,400	217,400	139,078	(78,322)
Total budgeted revenues and fund balance	<u>\$ 618,400</u>	<u>\$ 618,400</u>	<u>\$ 309,137</u>	<u>\$ (309,263)</u>
Expenditures:				
General government:				
Personal services & employee benefits	\$ 280,800	\$ 280,800	\$ 397	\$ 280,403
Contractual services	-	-	-	-
Other	337,600	337,600	308,739	28,861
Total expenditures	<u>\$ 618,400</u>	<u>\$ 618,400</u>	<u>\$ 309,137</u>	<u>\$ 309,263</u>

The accompanying notes are an integral part of the financial statements



**Macias, Gutierrez
& Co., P.C.**

*Certified Public Accountants
Member AICPA, NMSCPA*

1302 Calle De La Merced, Suite A
Española, New Mexico 87532
505.747.4415
Fax 505.747.4417

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

Honorable Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico 87505

We have audited the financial statements of the governmental activities, the major fund and the budgetary comparison statement for the general fund of the State of New Mexico, Office of the State Auditor (Office) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 30, 2009. We have also audited the financial statements of each of the Office's general fund accounts and the respective budgetary comparisons as of and for the year then ended presented as supplementary information in the combining and individual fund financial statements. 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 Office'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 Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office'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 a 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 a more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Office's internal control.

A material weakness is a significant deficiency, or a 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 Office'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 Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The 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 management, Office of the State Auditor, the New Mexico State Legislature, the New Mexico Department of Finance and Administration and its committees and is not intended to be and should not be used by anyone other than these specified parties.

Macias, Gutierrez & Co., CPAs, P.C.

Macias, Gutierrez & Co., CPAs, P.C.
Española, New Mexico
October 30, 2009

**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR**

**Schedule of Findings and Responses
June 30, 2009**

	<u>Type of Finding *</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
Current Year Findings:			
None	N/A	N/A	N/A
Follow-up on Prior Year Findings:			
None	N/A	N/A	N/A

*** Legend for Findings:**

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Other Matters involving Internal Control Over Financial Reporting
- D. Material Instance of Noncompliance
- E. Immaterial Instance of Noncompliance

**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR**

**Exit Conference
June 30, 2009**

Financial Statement Preparation

The financial statements and notes to the financial statements were prepared by the Office of the State Auditor staff.

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EXIT CONFERENCE

The financial statements and the auditors' reports were discussed at an exit conference held on November 4, 2009 with the following in attendance:

Office of the State Auditor

The Honorable Hector H. Balderas, New Mexico State Auditor
Carla Martinez, CPA, Deputy State Auditor
Kathy Neidigk, CPA, Audit Manager
Rita Archuleta, Budget and Finance Director

Audit Firm

James R. Macias, CPA
George M. Gutierrez, CPA