



**OFFICE OF THE STATE AUDITOR**  
**Hector H. Balderas**

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

**Financial Statements**  
**Year Ended June 30, 2010**

**(With Independent Auditor's Report Thereon)**

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR

Financial Statements  
Year Ended June 30, 2010

(With Independent Auditor's Report Thereon)

**STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
June 30, 2010**

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**STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR  
June 30, 2010**

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

**Official Roster  
June 30, 2010**

<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	Contracts Division Director
Rita Archuleta	Budget and Finance Director



Macias, Gutierrez  
& Co., P.C.

*Certified Public Accountants  
Member AICPA, NMSCPA*

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## INDEPENDENT AUDITORS' REPORT

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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, 2010, 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, 2010, 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, 2010, 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, 2010, 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, 2010, 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 September 30, 2010 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 xvii 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.  
Espanola, New Mexico  
September 30, 2010

## 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, 2010.

### **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 2010	FY 2009	Change
Petty Cash	\$ 100	\$ 100	\$ -
Investment in General Fund Investment Pool	730,190	1,486,316	(756,126)
Receivables	49,178	249	48,929
Capital assets net of depreciation	<u>20,403</u>	<u>22,921</u>	<u>(2,518)</u>
Total assets	<u>\$ 799,871</u>	<u>\$ 1,509,586</u>	<u>\$ (709,715)</u>

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

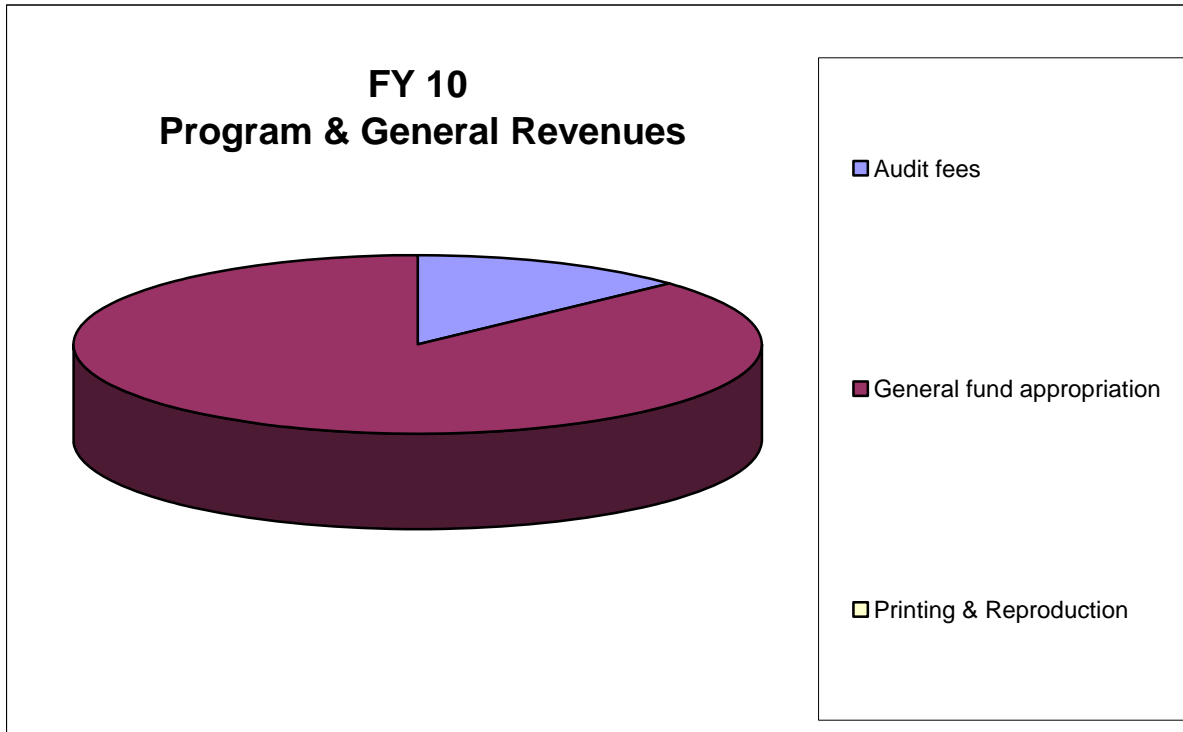
	FY 2010	FY 2009	Change
Accounts payable	\$ 34,199	\$ 51,747	\$ (17,548)
Accrued salary & employee benefits	117,266	109,278	7,988
Due to State General Fund	3,597	289,676	(286,079)
Compensated absences	150,899	165,409	(14,510)
Total liabilities	<u>305,961</u>	<u>616,110</u>	<u>(310,149)</u>
Net assets, invested in capital assets	20,403	22,921	(2,518)
Net assets, unrestricted	<u>473,507</u>	<u>870,555</u>	<u>(397,048)</u>
Total net assets	<u>\$ 493,910</u>	<u>\$ 893,476</u>	<u>\$ (399,566)</u>

The unrestricted net asset amount of \$473,507 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

	FY 2010	FY 2009	Change
Program revenues			
Audit services	\$ 355,315	\$ 169,519	\$ 185,796
Printing & reproduction	1,895	560	1,335
	<u>357,210</u>	<u>170,079</u>	<u>187,131</u>
General revenues			
State general fund appropriation, net	2,350,303	2,497,027	(146,724)
Special general fund appropriation	-	10,000	(10,000)
State general fund compensation appropriation	<u>-</u>	<u>48,600</u>	<u>(48,600)</u>
Total general revenues	<u>2,350,303</u>	<u>2,555,627</u>	<u>(205,324)</u>
Total program and general revenues	<u>\$ 2,707,513</u>	<u>\$ 2,725,706</u>	<u>\$ (18,193)</u>

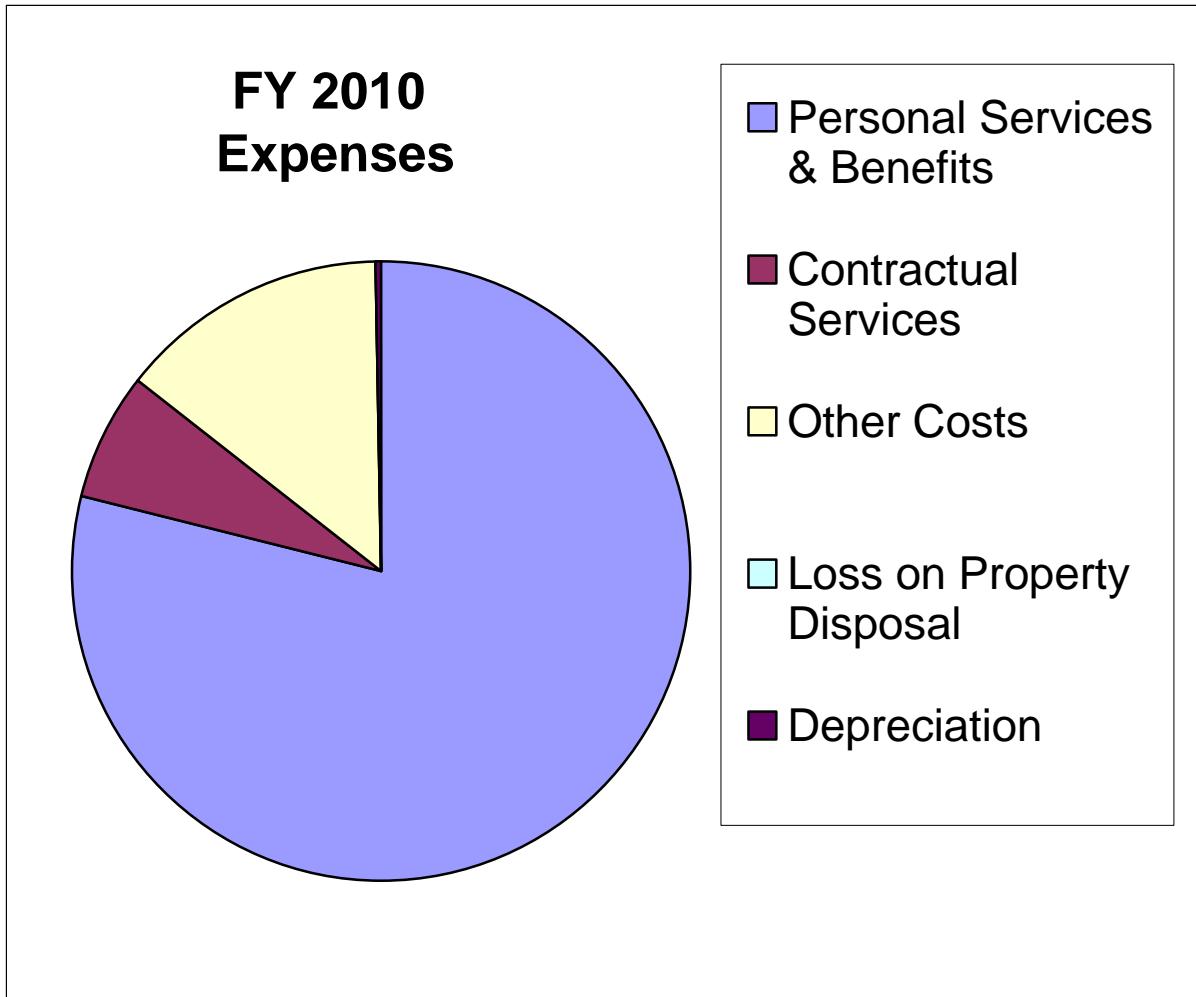
The Office's Program and General Revenues for fiscal year ended June 30, 2010 are depicted in the chart below.



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

	FY 2010	FY 2009	Change
Program expenses			
Personal services & benefits	\$ 2,454,751	\$ 2,409,160	\$ 45,591
Contractual services	200,184	244,844	(44,660)
Other costs	443,750	570,289	(126,539)
Loss on disposition of property	575	2,463	(1,888)
Depreciation	7,819	9,058	(1,239)
<b>Total program expenses</b>	<b>3,107,079</b>	<b>3,235,814</b>	<b>(128,735)</b>
<b>Change in net assets</b>	<b>(399,566)</b>	<b>(510,108)</b>	<b>110,542</b>
<b>Beginning net assets</b>	<b>893,476</b>	<b>1,403,584</b>	<b>(510,108)</b>
<b>Ending net assets</b>	<b>\$ 493,910</b>	<b>\$ 893,476</b>	<b>(399,566)</b>

Office of the State Auditor expenses by category for the fiscal year ended June 30, 2010 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 are 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 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>
Petty Cash	\$ 100	\$ 100	\$ 100
Subsequent years	418,100	418,100	533,022
Unreserved	<u>206,206</u>	<u>617,764</u>	<u>927,823</u>
 Total Fund Balance	 <u>\$ 624,406</u>	 <u>\$ 1,035,964</u>	 <u>\$ 1,460,945</u>

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

- Decreased from FY08 to FY09 by \$ (310,059); and
- Decreased from FY09 to FY10 by \$ (411,558).

The large decrease in unreserved fund balance is related to fact that the Legislature has been changing the makeup of the Office budget in recent years. Due to the shortage of revenues at the statewide level, the percentage of the Office budget that comes from general fund appropriations has significantly decreased while the portion of the budget provided from the Fund 11200 fund balance has significantly increased. The amount of the Office budget funded by Fund 11200 fund balances for the past several years and for FY11 is:

- \$233,900 in FY08;
- \$217,400 in FY09 (the \$533,022 reserved for subsequent year in FY08 includes the 217,400 of 11200 fund balance plus 315,622 of special appropriations for the Regional Housing Authority audits);
- \$418,100 in FY10; and
- \$418,100 in FY11.

This shift on the part of the Legislature toward using up the Fund 11200 fund balance to pay for the expenditures of the Office has resulted in the significant decreases in the fund balance as shown above. Also, the portion of the FY08 fund balance that was associated with the special appropriations for the regional housing authority audits that was not used in FY09 reverted to the State General Fund.

During the same period of time, audit fee revenue on the modified accrual basis decreased between FY08 and FY09 by (\$211,674), and increased between FY09 and FY10 by \$155,796.

#### Audit Fee Revenue (Modified Accrual Basis)

	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>
Audit Fee Revenue	<u>\$ 355,315</u>	<u>\$ 199,519</u>	<u>\$ 411,193</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. The Office expended \$281,204 of those special appropriations and reverted \$18,796.

In FY10 the Office earned the audit fees shown below from the following governmental entities.

Children, Youth and Families Dept.	Annual financial and compliance audit	\$ 70,020
Aging & Long-Term Services Dept.	Annual financial and compliance audit	49,400
Mora Schools	Special audit	12,000
Rio Arriba County	Annual financial and compliance audit	74,960
City of Albuquerque	Annual financial and compliance audit	148,935
	Total	<u>\$ 355,315</u>

The total contract amount of the City of Albuquerque audit for FY09 is \$179,957. However, due to the City not being ready for audit, the Office was able to complete only 83% of the audit and bill the City \$148,935 in FY10. The Office will earn and bill the remaining \$31,022 of this contract in FY11.

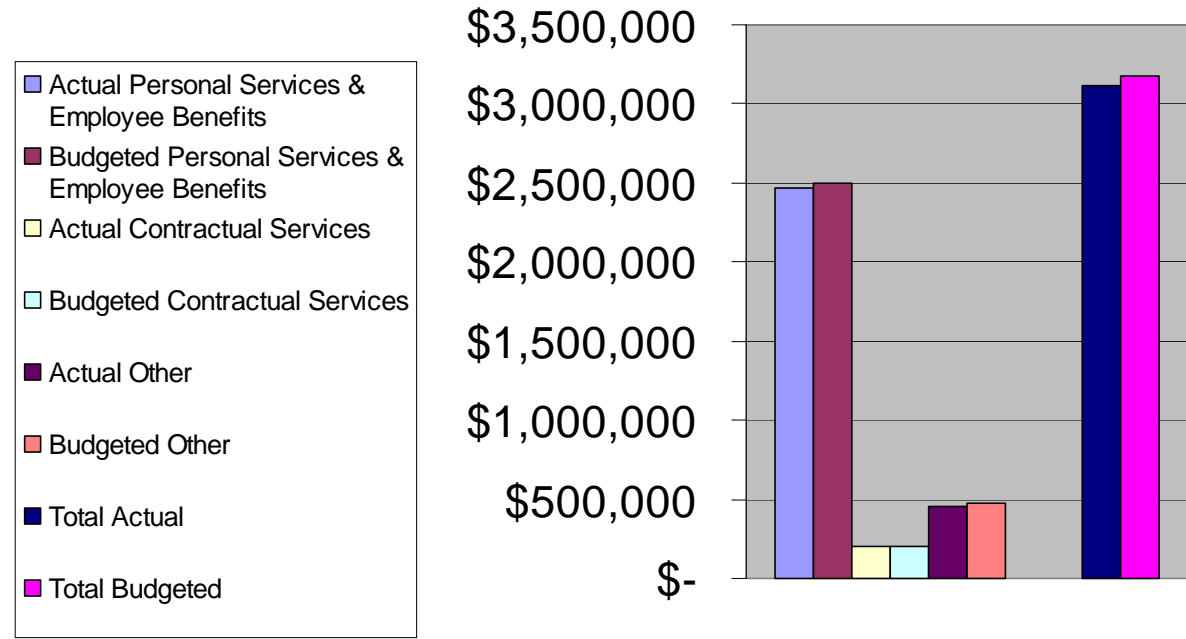
### **General Fund Budgetary Highlights**

The original budget for fund 11200 was not adjusted during FY10. The original budget for fund 11100 was decreased by 4.0% for a total reduction of \$98,200 caused by the approval of House Bill 17 during the 2009 First Special Session. The appropriation units were reduced as follows:

- Personal services and employee benefits were decreased by (\$84,000);
- Contractual services were decreased by (\$8,400);
- Other costs were decreased by (\$5,800).

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.

## FY10 Actual / Budgeted Expenditures



### Capital Assets

The Office’s investment in capital assets, net of accumulated depreciation is \$20,403. There is no debt related to these capital assets. During FY10, the Office purchased one new server at \$5,223 and a glass top for the large conference table in the Santa Fe office, at \$653 (that met the criteria to be added to the capital assets). Depreciation expense for the year was \$7,819. The Office disposed of \$10,496 of capital assets, with related accumulated depreciation of \$9,921, resulting in a loss of \$575. As a result of this activity, the investment in capital assets, net of accumulated depreciation changed from \$22,921 at June 30, 2009 to \$20,403 at June 30, 2010, for a net decrease of \$2,518.

### Long-term Debt

The Office’s compensated absences liabilities decreased by \$14,510, from \$165,409 as of June 30, 2009, to \$ 150,899 at June 30, 2010. The Office estimated that the amount of compensated absences balance that would be used in FY11 would be about the same as the amount used in FY10, resulting in \$136,704 of the \$150,899 balance being reported as current, and the remaining \$14,195 being reported as long-term.

## The Political Environment and Next Year's Budget

Pursuant to recent changes to Section 12-6-3 NMSA 1978, the Office is in the process of implementing the new tiered system of agreed upon procedures engagements for local public bodies based on their annual revenue. The implementation of this new system has required the Office to: obtain local government input; develop four sets of agreed upon procedures; develop a new section of the Audit Rule; prepare related contract forms and letters; provide necessary training to the local public bodies and Office staff; and develop review questionnaires for Office staff to use during the review process.

In the meantime, State of New Mexico revenue has continued to decrease since the economic downturn in September 2008. The Office budget has also decreased. The total budget for the Office in FY11 per the Regular Session of the Legislature was \$3,139,100. That was an initial decrease of \$32,900 from the previous year's total adjusted budget of \$3,172,000. Then before FY11 started, pursuant to Section 10, Appropriation Reductions, from House Bill 2 of the 2010 Second Special Session, the FY11 budget for the Office was further reduced by \$19,800. In August 2010, the FY11 budget was again reduced, this time pursuant to Section 14, Authority to Reduce Allotments, House Bill 2, of the 2010 Second Special Session. This August reduction resulted in an additional decrease of \$73,600. Due to these changes in the FY11 budget, as of August 2010, the FY11 Office budget has been reduced from the original amount of \$3,139,100 by a total of \$93,400, with the resulting budget being \$3,045,700. When the current year budget decreases of \$93,400 are combined with the initial \$32,900 budget decrease from last year's budget, the combined decrease of \$126,300 makes the Office budget for FY11 4.0% less than the prior year's budget. Further reductions in the FY11 budget may occur, depending on State revenue collections and estimates and DFA's responses to the circumstances.

<b>Combined Funds 11100 &amp; 11200</b>	<b>FY11 Budget</b>	<b>FY10 Budget</b>	<b>FY11 Change since FY10</b>	<b>FY09 Budget</b>	<b>FY11 Change since FY09</b>
Personal Services & Employee Benefits	\$ 2,503,300	\$ 2,495,300	\$ 8,000	\$ 2,913,910	\$ (410,610)
Contractual Services	155,600	200,900	(45,300)	248,600	(93,000)
Other	<u>386,800</u>	<u>475,800</u>	<u>(89,000)</u>	<u>616,412</u>	<u>(229,612)</u>
Total	<u>\$ 3,045,700</u>	<u>\$ 3,172,000</u>	<u>\$ (126,300)</u>	<u>\$ 3,778,922</u>	<u>\$ (733,222)</u>

As of August 2010, the general fund portion of the FY11 budget for the Office budget reflects a 6.64% reduction from the FY10 budget and a 30.5% reduction from the FY09 budget as follows.



<b>Fund 11100</b>	<u>FY11 Budget</u>	<u>FY10 Budget</u>	<u>FY11 Change since FY10</u>	<u>FY09 Budget</u>	<u>FY11 Change since FY09</u>
Personal Services & Employee Benefits	\$ 1,811,400	\$ 2,014,800	\$ (203,400)	\$ 2,633,110	\$ (821,710)
Contractual Services	110,900	200,900	(90,000)	248,600	(137,700)
Other	<u>275,300</u>	<u>138,200</u>	<u>137,100</u>	<u>278,812</u>	<u>(3,512)</u>
Total	<u>\$ 2,197,600</u>	<u>\$ 2,353,900</u>	<u>\$ (156,300)</u>	<u>\$ 3,160,522</u>	<u>\$ (962,922)</u>

As described above in the Financial Analysis of the Fund Financial Statements section, the Legislature has increased the percentage of the Office budget that comes from the fund 11200 fund balance. As shown below, the fund 11200 portion of the FY11 budget reflects an increase of \$30,000, or 3.7% from the FY10 budget and an increase of \$229,700 or 37.1% from the FY09 budget.

<b>Fund 11200</b>	<u>FY11 Budget</u>	<u>FY10 Budget</u>	<u>FY11 Change since FY10</u>	<u>FY09 Budget</u>	<u>FY11 Change since FY09</u>
Personal Services & Employee Benefits	\$ 691,900	\$ 480,500	\$ 211,400	\$ 280,800	\$ 411,100
Contractual Services	44,700		44,700		44,700
Other	<u>111,500</u>	<u>337,600</u>	<u>(226,100)</u>	<u>337,600</u>	<u>(226,100)</u>
Total	<u>\$ 848,100</u>	<u>\$ 818,100</u>	<u>\$ 30,000</u>	<u>\$ 618,400</u>	<u>\$ 229,700</u>

### **Performance Measure Results and Next Year's Target**

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, and every year since then. The target measures and related results for fiscal year 2010 are shown below. Fiscal year 2011 target measures are reflected in the column at the far right.

Performance Measure	FY10 Target Measures	FY10 Results	FY11 Target Measures
Output: Total audit fees generated	\$400,000	\$355,315	\$430,000
Outcome: Percent of audits completed by regulatory due date	75%	79%	75%
Output: Number of training sessions performed	16	22	16
Outcome: Percent of statutory reviews of audit reports completed within ten days	75%	79.1%	75%
Efficiency: Percent of agency auditor selection requests processed within five days of receipt	100%	68%	100%
Number of independent public accountant working paper reviews	45	45	45

The \$355,315 of audit fees shown above consists of \$148,935 earned by performing a joint audit of the City of Albuquerque, \$70,020 earned by performing a joint audit of the Children, Youth and Families Department, \$49,400 earned by performing the audit of the Aging and Long-Term Care Department, \$74,960 earned by performing the audit of Rio Arriba County, and \$12,000 earned by performing a special audit of Mora Schools. The remaining \$31,022 of the City of Albuquerque FY09 audit contract will be earned and collected by the Office in FY11.

### **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  
Santa Fe, NM 87507

STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR

Exhibit A

Statement of Net Assets  
June 30, 2010

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Petty Cash	\$ 100
Investment in General Fund Investment Pool (note 2)	730,190
Accounts receivable, net of allowance (note 3)	264
Due from other state agencies (note 3)	239
Due from local governments	48,675
Capital assets, net of accumulated depreciation (note 4)	<u>20,403</u>
Total assets	<u>799,871</u>
<b>LIABILITIES</b>	
Accounts payable	34,199
Payroll benefits payable	40,426
Payroll taxes payable	25,227
Accrued salaries	51,613
Due to state general fund (note 7)	3,597
Compensated absences: (note 5)	
Due within one year	136,704
Due in more than one year	<u>14,195</u>
Total liabilities	<u>305,961</u>
<b>NET ASSETS:</b>	
Invested in capital assets (note 4)	20,403
Restricted	-
Unrestricted	<u>473,507</u>
Total net assets	<u>\$ 493,910</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, 2010

	Governmental Activities
Expenses:	
General government - audit services	
Personal services & employee benefits	\$ 2,454,751
Contractual services	200,184
Other Costs	443,750
Depreciation	7,819
Total program expenses	3,106,504
Program revenues:	
Charges for audit services	355,315
Printing and reproduction	1,895
Total program revenues	357,210
Net program expense	(2,749,294)
General revenues:	
State general fund appropriation (note 8)	2,353,900
Reversions (note 7)	(3,597)
Total general revenues	2,350,303
Special item - loss on property disposition	(575)
Change in net assets	(399,566)
Net assets, beginning	893,476
Net assets, ending	\$ 493,910

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, 2010**

**Exhibit C**

	<b>General Fund</b>
<b>ASSETS</b>	
Petty Cash	\$ 100
Investment in General Fund Investment Pool (note 2)	730,190
Accounts receivable, net of allowance (note 3)	264
Due from Other State Agencies (note 3)	239
Due from local governments	48,675
Total assets	\$ 779,468
<b>LIABILITIES AND FUND BALANCES</b>	
Accounts payable	\$ 34,199
Payroll benefits payable	40,426
Payroll taxes payable	25,227
Accrued salaries	51,613
Due to state general fund (note 7)	3,597
Total liabilities	155,062
<b>FUND BALANCES</b>	
Fund balances:	
Reserved for petty cash	100
Reserved for subsequent year expenditures	418,100
Unreserved	206,206
Total fund balances	624,406
Total liabilities and fund balances	\$ 779,468

Amounts reported in the statement of net assets differ because:

Total fund balances	\$ 624,406
Capital assets reported in governmental activities are not financial resources and therefore are not reported in the funds	20,403
Compensated absences accrued in the government-wide financial statements but not due and payable at fiscal year end	(150,899)
Net assets per Statement of Net Assets	\$ 493,910

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, 2010

	<u>General Fund</u>
Revenues:	
Charges for audit services	\$ 355,315
Printing and reproduction	1,895
Total revenues	<u>357,210</u>
Expenditures:	
General government:	
Current:	
Personal services & employee benefits	2,469,262
Contractual services	200,184
Other costs	443,749
Capital outlay	<u>5,876</u>
Total expenditures	<u>3,119,071</u>
Excess (deficiency) of revenues over expenditures	<u>(2,761,861)</u>
Other financing sources (uses):	
State general fund appropriation (note 8)	2,353,900
Reversions to State General Fund (note 7)	<u>(3,597)</u>
Total other financing sources (uses)	<u>2,350,303</u>
Net change in fund balances	(411,558)
Fund balance, beginning	<u>1,035,964</u>
Fund balance, ending	<u><u>\$ 624,406</u></u>

Amounts reported in the Statement of Activities are different because:

Net change in fund balances	\$ (411,558)
Decrease since PY in capital assets net of accumulated depreciation CY 20,403 less PY 22,921 equals decrease of 2,518	(2,518)
Decrease since PY in compensated absences PY 165,409 less CY 150,899 equals increase of 14,510	14,510
Change in net assets of governmental activities	<u><u>\$ (399,566)</u></u>

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

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All General Fund Accounts  
Statement of Revenues and Expenditures - Budget and Actual  
For the Year Ended June 30, 2010

Exhibit E

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
State General Fund:				
General fund appropriation	\$ 2,452,100	\$ 2,353,900	\$ 2,353,900	\$ -
Charges for audit services	400,000	400,000	355,315	(44,685)
Miscellaneous revenue	-	-	1,895	1,895
Total revenues	2,852,100	2,753,900	2,711,110	(42,790)
Fund Balance Budgeted:				
Fund 11200 Fund Balance	418,100	418,100	412,158	(5,942)
Total budgeted fund balance	418,100	418,100	412,158	(5,942)
Total budgeted revenue and fund balance	\$ 3,270,200	\$ 3,172,000	\$ 3,123,268	\$ (48,732)
Expenditures and other uses:				
General government:				
Personal services & employee benefits	\$ 2,579,300	\$ 2,495,300	\$ 2,469,261	\$ 26,039
Contractual services	209,300	200,900	200,184	716
Other	481,600	475,800	450,225	25,575
Total expenditures and other uses	\$ 3,270,200	\$ 3,172,000	\$ 3,119,670	\$ 52,330

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO  
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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 effect on assets and liabilities within the statement. The Office does not have any business-type activities, therefore only governmental activities are shown.



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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. 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.

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Only the portion of current compensated absences related to payments due to retired or terminated employees as of June 30, 2010, 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, 2010, there were no material 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, 2010.

**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:

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

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**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 1<sup>st</sup>, 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 subsection N of Section 3 of the General Appropriation Act of 2009 (Laws of 2009, House Bill 2) "for the purpose of administering the General Appropriation Act of 2009 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, 2010 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, 2010, 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 FY10 budget for fund 11100 was decreased 4.0% by the 2009 Special Session of the Legislature's approval of House Bill 17. Item (3) in Subsection A, of Section 1 states, "state agencies under the control of all elected executive officials other than the governor are each reduced by four percent, except that the

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attorney general is reduced by two percent.” The Legislature’s approval of HB 17 resulted in the following changes to the Fund 11100 appropriation codes: a decrease to Personal Services and Benefits of \$84,000; a decrease to Contractual services of \$8,400, and a decrease to Other Costs of \$5,800.

9. Single-year appropriations lapse at the end of the fiscal year. Accounts payable amounts related to goods and services received by June 30<sup>th</sup> 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, are paid out of the next year’s budget. The Office did not have any accounts payables at June 30, 2010 that were not paid within the required time period.

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 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

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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. Classified employees who are FLSA exempt accumulate compensation time at the same rate as the number of hours worked. Exempt employees are not entitled to compensation time. Overtime must be pre-approved by management. Payment of this liability can be made by compensated leave time or cash payment. At June 30, 2010, the liability for compensation time owed to fifteen employees totaled \$12,182.

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**

Any remaining SHARE fund 11100 fund balance not reserved for petty cash or unexpended special or capital outlay appropriations, reverts to the State General fund by September 30, 2010, 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 \$20,403 equal the capital assets, net of accumulated depreciation.

Unrestricted net assets of \$473,507 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.

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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 2011 necessary to balance the fund 11200 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.

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

Cash accounts of the Office at June 30, 2010:

Name of Account	SHARE Fund Name	SHARE Fund #	Balance Per Books
Investment in General Fund Investment Pool	State Auditor Administration	11100	\$ 31,790
Investment in General Fund Investment Pool	State Auditor IPA- Audits	11200	<u>698,400</u>
Subtotal of Investments			730,190
Petty Cash			<u>100</u>
Total Investments and Petty Cash			<u>\$ 730,290</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

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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, 2010, review the State Treasurer's Investment Policy at <http://www.stonm.org/Investments/InvestmentPolicy>, 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 at June 30, 2010 consist of:

Audit fee due from local government	\$ 48,675	
Audit fee due from local government	8,164	
Audit fee due from state agency	3,000	
Reimbursement due from employee	253	
Refund due from vendor	11	
Amount due from DFA for payroll-related liabilities	239	
Total accounts receivable	\$ 60,342	
Less the allowance for doubtful accounts	(11,164)	
Accounts receivable net of the allowance	\$ 49,178	

**4. Changes in Capital Assets**

Summaries of changes in capital assets and accumulated depreciation follow:

Historical Cost	Balance			Balance	
	6/30/09	Adjustments	Additions	Deletions	6/30/10
Furniture and fixtures	\$ 18,844	-	\$ 653	\$ 2,604	\$ 16,893
Info Technology Equipment	92,065	-	5,223	7,892	89,396
Software	18,078	-	-	-	18,078
Motor Vehicle	14,711	-	-	-	14,711
	\$ 143,698	-	\$ 5,876	\$ 10,496	\$ 139,078
Totals	\$ 143,698	-	\$ 5,876	\$ 10,496	\$ 139,078

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<b>Related Depreciation</b>	<b>Balance 6/30/09</b>	<b>Adjustments</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/10</b>
Furniture and fixtures	\$ 10,549	-	\$ 1,373	\$ 2,255	\$ 9,667
Info Technology Equipment	77,439	-	6,446	7,666	76,219
Software	18,078	-	-	-	18,078
Motor Vehicle	14,711	-	-	-	14,711
<b>Totals</b>	<b>\$ 120,777</b>	<b>-</b>	<b>\$ 7,819</b>	<b>\$ 9,921</b>	<b>\$ 118,675</b>

<b>Assets, net of Depreciation</b>	<b>Balance 6/30/09</b>	<b>Adjustments</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/10</b>
Furniture and fixtures	\$ 8,295	-	\$ (720)	\$ 349	\$ 7,226
Info Technology Equipment	14,626	-	(1,223)	226	13,177
Software	-	-	-	-	-
Motor Vehicle	-	-	-	-	-
<b>Totals</b>	<b>\$ 22,921</b>	<b>-</b>	<b>\$ (1,943)</b>	<b>\$ 575</b>	<b>\$ 20,403</b>

**5. Changes in Compensated Absences**

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

	Balance 7/1/09	Increase	(Decrease)	Balance 6/30/10	Amount Due in 1 Year
Annual Leave	\$ 134,030	\$ 106,606	\$(102,405)	\$ 138,231	\$ 102,796
Sick Leave	-	1,363	(877)	486	486
Comp-Time	31,379	14,225	(33,422)	12,182	33,422
<b>Total Compensated Absences</b>	<b>\$ 165,409</b>	<b>\$ 122,194</b>	<b>\$(136,704)</b>	<b>\$ 150,899</b>	<b>\$ 136,704</b>

The compensated absence liabilities include the applicable employer FICA taxes.

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



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**6. Operating Leases**

The Office had nine operating leases at June 30, 2010 for the following items: a Pitney Bowes postage meter; two Xerox photocopiers; four vehicles leased from General Services Department, and two office building leases. The previous large postage meter that cost the Office \$532 per quarter was exchanged for a smaller postage meter that cost only \$569 during FY10, after a credit was taken into consideration. The Office obtained two leased Xerox photocopiers on July 3, 2007. The payments for the large copier are \$835 (plus the cost of extra copies) per month through June 2012. The Office paid \$15,564 for this copier during FY10. The payments for the smaller copier are \$248 per month, and that lease also ends in June 2012. The Office paid \$3,044 for this copier during FY10. The Office made twelve lease payments totaling \$18,384 during FY10 for the four leased vehicles. The Office also paid \$6,964 during FY10, for the final payment on the lease of its old office space at 2113 Warner Circle, Santa Fe, NM. In August of 2008, the Office entered into a 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 Office paid \$75,475 for this lease during FY10. In October of 2008, the Office entered into a lease agreement for new Santa Fe office space at 2540 Camino Edward Ortiz, Suite A. The Office began occupying that space in August 2009. The original term of the lease was from March 1, 2009 through February 29, 2019. The lease was amended. The new term of the lease is from August 14, 2009 through August 14, 2019. The Office paid \$173,707 for this lease during FY10.

All of the Office leases include a standard cancellation clause in case the Legislature does not appropriate sufficient appropriations for the Office to carry out the terms and conditions of its leases. In the current economic climate it is not a remote possibility that the Office leases could be cancelled. Therefore, no disclosure of future minimum lease payments is necessary.

**7. 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, 2010, from the General Administration Account (Fund 11100):

Petty cash and investment in general fund investment pool, June 30, 2010 (Administration Account, Fund 11100)	\$ 31,890
Plus: Receivables	264
Less: Accounts payable, June 30, 2010	(22,255)
Accrued salaries and related liabilities, June 30, 2010	(6,202)
Reserve for petty cash, June 30, 2010	(100)
Due to State General Fund, June 30, 2010	<u>\$ 3,597</u>

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

FY10 unencumbered unexpended general fund appropriation	\$ 1,729
FY10 revenue from printing and reproduction	1,868
Total Reversions	\$ 3,597

**8. Transfers**

In September 2009, an operating transfer posted to SHARE in the amount of \$18,112 to transfer cash from SHARE fund 11100 to SHARE fund 11200. The transfer repaid Fund 11200 for an amount “due from other funds” that was accrued in FY09 related to the regional housing authority audits.

The Office received twelve monthly cash payments from the DFA Appropriations account totaling the amount shown below.

Agency	SHARE fund from/to	Amount	Purpose of the Payment
DFA	85300/11100	\$ 2,353,900	Appropriation allotments

The office made payments to the State General Fund (85300) during FY10 totaling the amount shown below, for reversions related to appropriations from FY09 and earlier.

Date	SHARE fund from/to	Amount	Purpose of the Payments
9/08	11100/85300	\$ 289,676	Reversions to the State General Fund

**9. 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

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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](http://www.pera.state.nm.us).

*Funding Policy.* Plan members are required to contribute from 3.83% to 16.65% of their gross salary, depending upon which plan they participate in: state general; state hazardous duty; state police and adult correctional officers; municipal general; municipal police, municipal fire, or municipal detention officer. Employers are required to contribute from 7.0% to 25.72% of the gross covered salary, depending on the plan. 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, 2010, 2009, and 2008 were \$280,547, \$284,846, and \$271,417 respectively, which equal the amount of the required contributions for each fiscal year.

#### **10. 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 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

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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](http://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. In FY10 the statute required each participating employer to contribute 1.3% of each participating employee’s annual salary; each participating employee was required to contribute .65% of their salary. In the fiscal years ending June 30, 2011 through June 30, 2013 the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan (police, firefighters, municipal detention officers, or Judicial Retirement Act participants) the contribution rates will be:

<u>Fiscal</u> <u>Year</u>	<u>Employer Contribution</u> <u>Rate</u>	<u>Employee</u> <u>Contribution Rate</u>
FY11	1.666%	.833%
FY12	1.834%	.917%
FY13	2.000%	1.000%

Also, employers joining the program after 1/1/98 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

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The Office contributions to the RHCA for the years ended June 30, 2010, 2009, and 2008 were \$ 23,661, \$21,408, and \$18,984 respectively, which equal the required contributions for each year.

**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 (Exhibit E)		\$ 2,711,110
No difference		0
Revenues per Modified Accrual Fund Financial Statements (Exhibit D)		\$ 2,711,110
Total agency expenditures per SHARE A611 Trial Balance Report and Budget Basis amount (Exhibit E)		\$ 3,119,670
Reversal of prior year accrual for Requests to Pay Prior Year Bills in FY09	\$ (599)	
Current year accrual for Requests to Pay Prior Year Bills in FY2011	0	
Total agency expenditures on the modified accrual basis (Exhibit D)		\$ 3,119,071

**14. Subsequent Events**

The Office budget for FY11 has been decreased. The total budget for the Office in FY11 per the Regular Session of the Legislature was \$3,139,100. That was an initial decrease of \$32,900 from the previous year's total adjusted budget of \$3,172,000. Then before

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FY11 started, pursuant to Section 10, Appropriation Reductions, from House Bill 2 of the 2010 Second Special Session, the FY11 budget of \$3,139,100 was reduced further by \$19,800. In August 2010, the FY11 budget was again reduced, this time pursuant to Section 14, Authority to Reduce Allotments, House Bill 2, of the 2010 Second Special Session. The August reduction resulted in an additional decrease of \$73,600. Due to these changes in the FY11 budget, as of August 2010, the FY11 Office budget has been reduced from the original amount of \$3,139,100 by a total of \$93,400, with the resulting budget being \$3,045,700. This total decrease of \$126,300 (\$32,900 plus \$93,400) from the FY10 budget of \$3,172,000, has resulted in an FY11 budget that is 4.0% less than the FY10 budget. Further reductions in the FY11 budget may occur, depending on State revenue collections and estimates and DFA's responses to the circumstances. The Office has submitted an FY12 budget request for Fund 11200 that includes budgeting \$200,000 of the June 30, 2010 unreserved balance of \$206,206. There may be very little fund balance left, if any, in Fund 11200 to budget in future fiscal years.

**STATE OF NEW MEXICO  
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**Combining Balance Sheet - General Fund Accounts  
June 30, 2010**

	<b>SHARE FUND 11100 Adm. Account</b>	<b>SHARE FUND 11200 IPA Account</b>	<b>TOTAL GENERAL FUND</b>
<b>ASSETS</b>			
Petty Cash	\$ 100	\$ -	\$ 100
Investment in General Fund Investment Pool	31,790	698,400	730,190
Accounts receivable (net of allowance for doubtful accounts)	264	-	264
Due from other state agencies	-	239	239
Due from local governments	-	48,675	48,675
	<u>32,154</u>	<u>747,314</u>	<u>779,468</u>
Total assets	<u>\$ 32,154</u>	<u>\$ 747,314</u>	<u>\$ 779,468</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 22,255	\$ 11,944	\$ 34,199
Payroll benefits payable	3,067	37,359	40,426
Payroll taxes payable	1,062	24,165	25,227
Accrued salaries	2,073	49,540	51,613
Due to general fund accounts	-	-	-
Due to State General Fund	3,597	-	3,597
	<u>32,054</u>	<u>123,008</u>	<u>155,062</u>
Total liabilities	<u>32,054</u>	<u>123,008</u>	<u>155,062</u>
Fund balances:			
Reserved for petty cash	100	-	100
Reserved for subsequent year	-	418,100	418,100
Unreserved-undesignated	-	206,206	206,206
	<u>100</u>	<u>624,306</u>	<u>624,406</u>
Total fund balances	<u>100</u>	<u>624,306</u>	<u>624,406</u>
Total liabilities and fund balances	<u>\$ 32,154</u>	<u>\$ 747,314</u>	<u>\$ 779,468</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, 2010**

	<u>SHARE FUND 11100 Adm. Account</u>	<u>SHARE FUND 11200 IPA Account</u>	<u>TOTAL GENERAL FUND</u>
Revenues:			
Charges for audit services	\$ -	\$ 355,315	\$ 355,315
Printing and reproduction	1,869	26	1,895
Total revenues	<u>1,869</u>	<u>355,341</u>	<u>357,210</u>
Expenditures			
General government:			
Current:			
Personal services & employee benefits	2,014,702	454,560	2,469,262
Contractual services	200,184	-	200,184
Other costs	131,410	312,339	443,749
Capital outlay	5,876	-	5,876
Total expenditures	<u>2,352,172</u>	<u>766,899</u>	<u>3,119,071</u>
Excess (deficiency) of revenues over expenditures	<u>(2,350,303)</u>	<u>(411,558)</u>	<u>(2,761,861)</u>
Other financing sources (uses):			
State General Fund Appropriation	2,353,900	-	2,353,900
Special General Fund Appropriation	-	-	-
Compensation Appropriation	-	-	-
Reversion to State General Fund	(3,597)	-	(3,597)
Total other financing sources (uses)	<u>2,350,303</u>	<u>-</u>	<u>2,350,303</u>
Net change in fund balances	-	(411,558)	(411,558)
Fund balance, beginning	100	1,035,864	1,035,964
Fund balance, ending	<u>\$ 100</u>	<u>\$ 624,306</u>	<u>\$ 624,406</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, 2010

	<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	\$ 2,452,100	\$ 2,353,900	\$ 2,353,900	\$ -
Miscellaneous revenue	-	-	1,869	1,869
Total budgeted revenues	<u>2,452,100</u>	<u>2,353,900</u>	<u>2,355,769</u>	<u>1,869</u>
Expenditures and other uses:				
General government:				
Personal services & employee benefits	\$ 2,098,800	\$ 2,014,800	\$ 2,014,701	\$ 99
Contractual services	209,300	200,900	200,184	716
Other	144,000	138,200	137,286	914
Total expenditures and other uses	<u>\$ 2,452,100</u>	<u>\$ 2,353,900</u>	<u>\$ 2,352,171</u>	<u>\$ 1,729</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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for audit services	\$ 400,000	\$ 400,000	\$ 355,315	\$ (44,685)
Miscellaneous revenue	-	-	26	26
Total revenues	400,000	400,000	355,341	(44,659)
Prior-year funds re-budgeted	418,100	418,100	412,158	(5,942)
Total budgeted revenues and fund balance	<u>\$ 818,100</u>	<u>\$ 818,100</u>	<u>\$ 767,499</u>	<u>\$ (50,601)</u>
Expenditures:				
General government:				
Personal services & employee benefits	\$ 480,500	\$ 480,500	\$ 454,560	\$ 25,940
Contractual services	-	-	-	-
Other	337,600	337,600	312,939	24,661
Total expenditures	<u>\$ 818,100</u>	<u>\$ 818,100</u>	<u>\$ 767,499</u>	<u>\$ 50,601</u>

The accompanying notes are an integral part of the financial statements



Macias, Gutierrez  
& Co., P.C.

*Certified Public Accountants  
Member AICPA, NMSCPA*

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**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**

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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, 2010, and have issued our report thereon dated September 30, 2010. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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 be 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 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  
September 30, 2010

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

**Schedule of Findings and Responses  
June 30, 2010**

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	<u>Type of Finding *</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
<b>Current Year Findings:</b>			
None	N/A	N/A	N/A
<b>Follow-up on Prior Year Findings:</b>			
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, 2010**

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**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 September 30, 2010 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

**Audit Firm**

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