



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

**Financial Statements
Year Ended June 30, 2011**

(With Independent Auditor's Report Thereon)

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR

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Year Ended June 30, 2011

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**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
June 30, 2011**

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**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
June 30, 2011**

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

**Official Roster
June 30, 2011**

<u>Name</u>	<u>Title</u>
Hector H. Balderas, Esq.	State Auditor
Carla Martinez, CPA, Esq.	Deputy State Auditor and Chief Financial Officer
Evan Blackstone, Esq.	Chief of Staff
Lori Martinez, Esq.	General Counsel
Antonio Corrales	Operations and Compliance Director
Rita Archuleta	Budget and Finance Director



Macias, Gutierrez
& Co., P.C.

Certified Public Accountants
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INDEPENDENT AUDITORS' REPORT

Honorable Hector H. Balderas, Esq.
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, 2011, 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, 2011, 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, 2011, 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, 2011, 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, 2011, 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 10, 2011 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.
Española, New Mexico
October 10, 2011

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, 2011.

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 2011	FY 2010	Change
Petty Cash	\$ 100	\$ 100	\$ -
Investment in General Fund Investment Pool	482,992	730,190	(247,198)
Receivables	56,851	49,178	7,673
Capital assets net of depreciation	21,373	20,403	970
 Total assets	 \$ 561,316	 \$ 799,871	 \$ (238,555)

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

	FY 2011	FY 2010	Change
Accounts payable	\$ 33,346	\$ 34,199	\$ (853)
Accrued salary & employee benefits	77,703	117,266	(39,563)
Due to State General Fund	2,794	3,597	(803)
Compensated absences	143,023	150,899	(7,876)
Total liabilities	256,866	305,961	(49,095)
Net assets, invested in capital assets	21,373	20,403	970
Net assets, unrestricted	283,077	473,507	(190,430)
Total net assets	\$ 304,450	\$ 493,910	\$ (189,460)

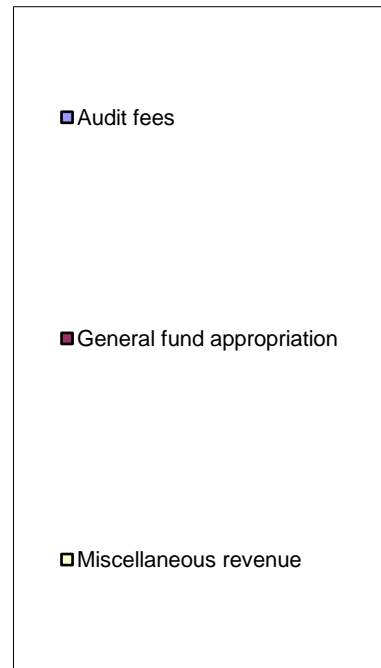
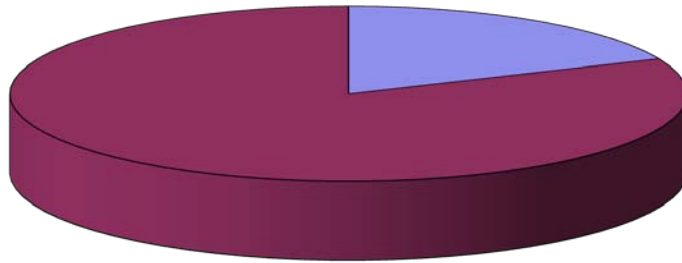
The unrestricted net asset amount of \$283,077 is available to be used to meet the Office's ongoing obligations to citizens and creditors.

Office of the State Auditor's Changes in Net Assets

	FY 2011	FY 2010	Change
Program revenues			
Audit services	\$ 498,427	\$ 355,315	\$ 143,112
Printing & reproduction	-	1,895	(1,895)
Miscellaneous revenue	221	-	221
Total program revenues	498,648	357,210	141,438
General revenues			
State general fund appropriation, net	2,196,105	2,350,303	(154,198)
Total general revenues	2,196,105	2,350,303	(154,198)
Total program and general revenues	\$ 2,694,753	\$ 2,707,513	\$ (12,760)

The Office's Program and General Revenues for fiscal year ended June 30, 2011 are depicted in the chart below.

FY 11 Program & General Revenues

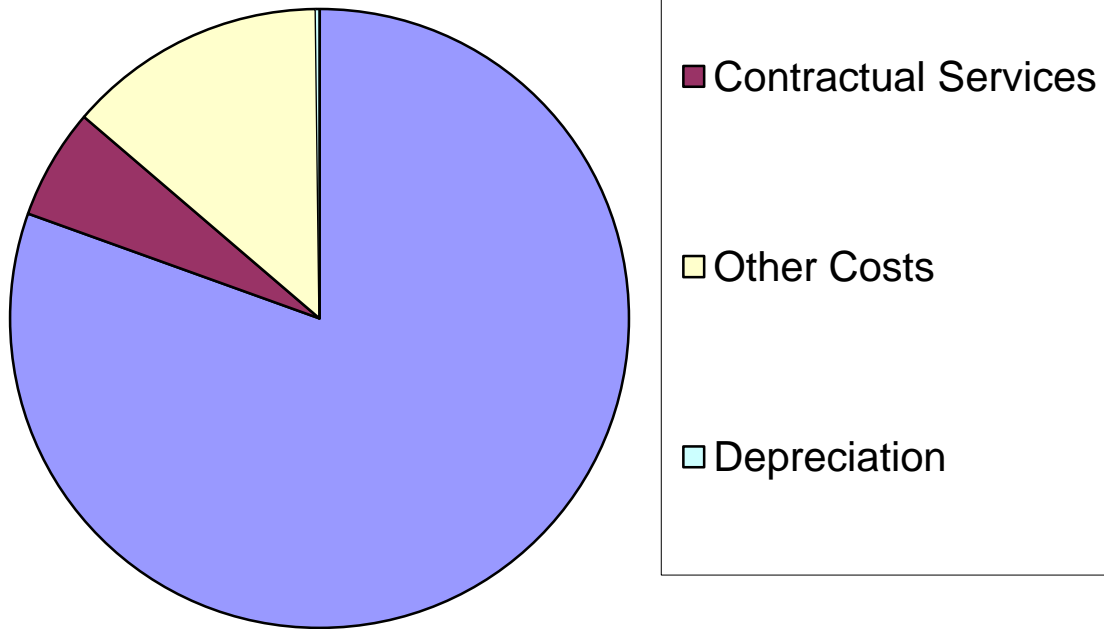


Office of the State Auditor's Changes in Net Assets (Continued)

	FY 2011	FY 2010	Change
Program expenses			
Personal services & benefits	\$ 2,321,700	\$ 2,454,751	\$ (133,051)
Contractual services	166,392	200,184	(33,792)
Other costs	390,677	443,750	(53,073)
Loss on disposition of property	-	575	(575)
Depreciation	5,444	7,819	(2,375)
Total program expenses	<u>2,884,213</u>	<u>3,107,079</u>	<u>(222,866)</u>
Change in net assets	(189,460)	(399,566)	210,106
Beginning net assets	493,910	893,476	(399,566)
Ending net assets	<u>\$ 304,450</u>	<u>\$ 493,910</u>	<u>(189,460)</u>

Office of the State Auditor expenses by category for the fiscal year ended June 30, 2011 appear in the chart that follows.

FY 2011 Expenses



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). Unassigned and assigned fund balances serve as measures 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 unassigned fund balance will be zero, except for the \$100 related to the petty cash. However, if there are accounts payable at year end that did not get paid within the 31 days after fiscal year end allowed by statute, there could be a resulting negative unassigned fund balance. SHARE fund 11200 (IPA Account) is non-reverting. Therefore, the assigned fund balance is available for future appropriation. Committed fund balances in fund 11200 are not available because they have already been committed for expenditure in subsequent fiscal years by statutes approved by the legislature and the governor.

The Office implemented GASBS 54 in FY11, resulting in the following composition of the fund balances at the end of the current and prior fiscal years:

Fund Balance	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>
Committed for Subsequent years	\$ 199,400		
Assigned to Audit Expenses	223,600		
Unassigned	100		
Reserved for Subsequent years		\$ 418,100	\$ 418,100
Reserved for Petty Cash		100	100
Unreserved		206,206	617,764
Total Fund Balance	<u>\$ 423,100</u>	<u>\$ 624,406</u>	<u>\$ 1,035,964</u>

The fund balance available (modified accrual basis) for appropriation in future fiscal years, is presented as “Assigned” in FY11 and was presented as “unreserved” in previous years. It was generated from audit fees earned by the Office. Changes have occurred in this available fund balance as follows:

- Decreased from FY09 to FY10 by \$ (411,558); and
- Increased from FY10 to FY11 by 17,394.

The large decrease in unreserved fund balance between FY09 and FY10 is related to fact that the Legislature changed 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 came from general fund appropriations was significantly decreased, while the portion of the budget provided from the Fund 11200 fund balance was significantly increased in FY09 and FY10, resulting in a lower fund balance available for future appropriation. The amount of the Office budget funded by Fund 11200 fund balances for the past several years and for FY12 is:

- \$418,100 in FY10;
- \$418,100 in FY11; and
- \$199,400 in FY12.

This shift on the part of the Legislature toward using up the Fund 11200 fund balance to pay for expenditures of the Office has resulted in the significant overall decrease in the fund balance shown above.

During the same period of time, audit fee revenue on the modified accrual basis increased by \$155,796 between FY09 and FY10 and by \$140,112 between FY10 and FY11.

Audit Fee Revenue (Modified Accrual Basis)

	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>
Audit Fee Revenue	<u>\$ 495,427</u>	<u>\$ 355,315</u>	<u>\$ 199,519</u>

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 was \$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. Therefore, the Office earned and billed the remaining \$31,024 of this contract in FY11.

In FY11 the Office earned the audit fees shown below from the following governmental entities and collected \$8,163 of old receivables.

Collection of old FY03 receivables	Quay County special audit	\$ 8,163
Children, Youth and Families Dept.	Annual financial and compliance audit	70,470
Children, Youth and Families Dept.	Special examination	18,000
Corrections Department	Annual financial and compliance audit	58,600
Corrections Department	Special audit	50,000
Rio Arriba County	Annual financial and compliance audit	74,960
City of Albuquerque FY09	Annual financial and compliance audit	31,024
City of Albuquerque FY10	Annual financial and compliance audit	184,210
	Total	<u>\$ 495,427</u>

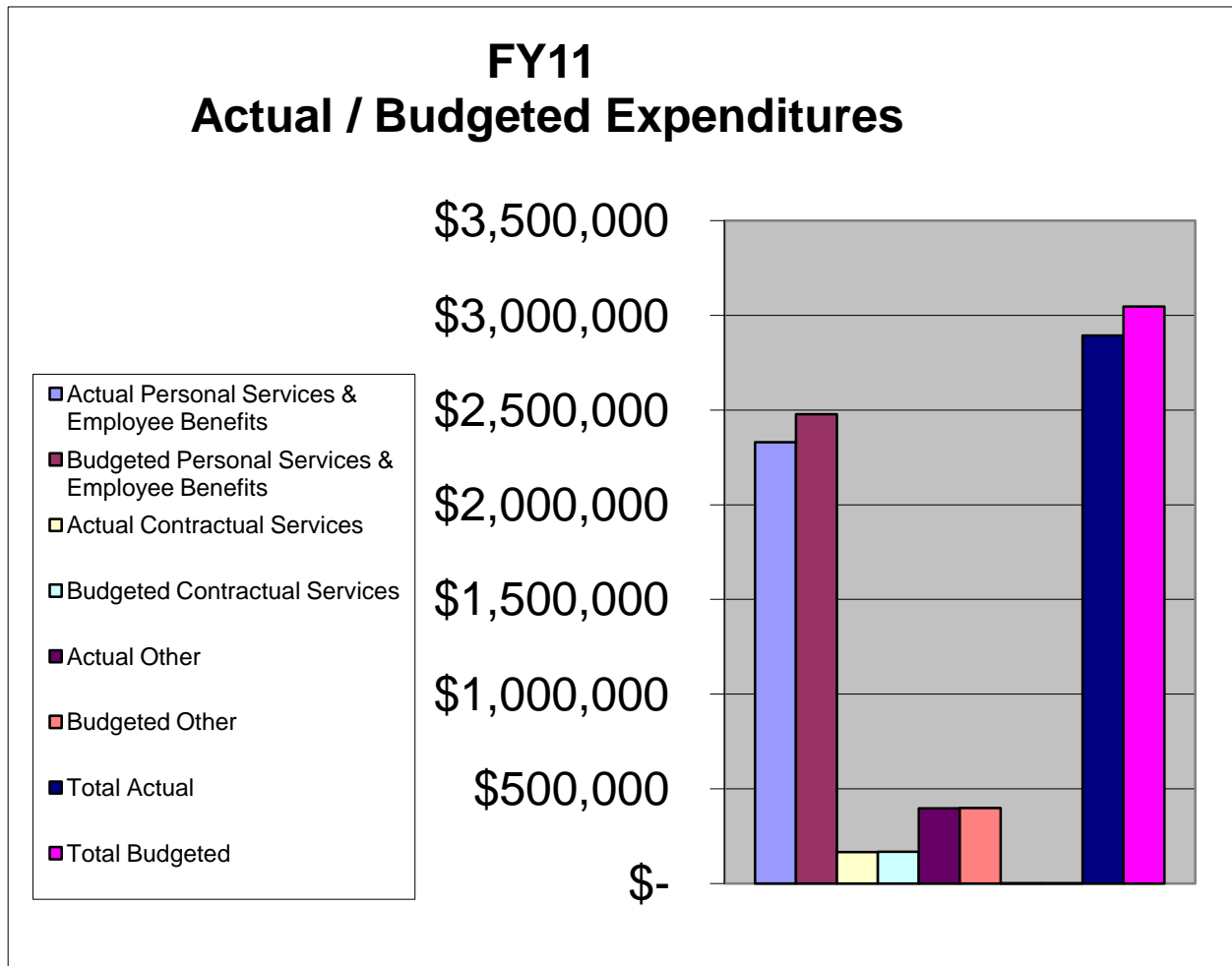
General Fund Budgetary Highlights

The original budget for fund 11200 was not adjusted during FY11. The FY11 budget of \$2,291,000 for fund 11100 was decreased a total of 4.0% by the 2010 Second Special Session of the Legislature's approval of House Bill 2. This statute resulted in a total decrease of \$93,400: Personal Services and Benefits was decreased \$78,600; Contractual Services was decreased \$3,700; and Other Costs was decreased \$11,100.

The Office processed two budget adjustment requests (BARs) in fund 11100 during FY11. The first one was an emergency BAR that moved \$3,100 from Personal Services and Benefits to

Contractual Services for repairs of an Office server that crashed. The second BAR moved \$22,812 out of Personal Services and Benefits, increasing Contractual Services by \$9,772 and Other Costs by \$13,040.

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 \$21,373. There is no debt related to these capital assets. During FY11, the Office purchased one new server at a cost of \$6,414. Depreciation expense for the year was \$5,444. The Office disposed of \$6,679 of capital assets, with related accumulated depreciation of \$6,679, resulting in no loss or gain. As a result of this activity, the investment in capital assets, net of accumulated depreciation changed from \$20,403 at June 30, 2010 to \$21,373 at June 30, 2011, for a net increase of \$970.

Long-term Debt

The total compensated absences liability decreased by \$7,876, from \$150,899 as of June 30, 2010, to \$ 143,023 at June 30, 2011. The Office estimated that the amount of compensated absences balance that would be used in FY12 would be about the same as the amount used in FY10, resulting in \$120,023 of the \$143,023 balance being reported as current, and the remaining \$23,000 being reported as long-term.

The Political Environment and Next Year's Budget

The Office experienced significant budget cuts from FY11 to FY12 as follows:

Combined Funds 11100 & 11200	FY12 Budget	FY11 Budget	Decrease in Budget from FY11 to FY12
Personal Services & Employee Benefits	2,416,200	2,503,300	(87,100)
Contractual Services	78,300	155,600	(77,300)
Other	312,900	386,800	(73,900)
Total	<u>2,807,400</u>	<u>3,045,700</u>	<u>(238,300)</u>
Percentage of Decrease		<u>(7.8%)</u>	

The Office has submitted an FY13 budget request for Fund 11200 that includes budgeting \$200,000 of the June 30, 2011 assigned fund balance of \$223,600. The Office expects very little fund balance left, if any, in Fund 11200 to budget in fiscal years after FY13. The FY13 budget request submitted September 1, 2011, also reflected 8 vacant positions and one employee out on extended leave, out of 33 full time employees.

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 2011 are shown below. Fiscal year 2012 target measures are reflected in the column at the far right.

Performance Measure	FY11 Target Measures	FY11 Results	FY12 Target Measures
Output: Total audit fees generated	\$430,000	\$495,427	\$400,000
Outcome: Percent of audits completed by regulatory due date	75%	75%	80%
Output: Number of training sessions performed	16	14	16
Outcome: Percent of statutory reviews of audit reports completed within ten days	75%	75.61%	75%
Efficiency: Percent of agency auditor selection requests processed within five days of receipt	100%	99%	95%
Number of independent public accountant working paper reviews	45	45	45

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, 2011

	<u>Governmental Activities</u>
ASSETS	
Petty Cash	\$ 100
Investment in General Fund Investment Pool (note 2)	482,992
Accounts receivable, net of allowance (note 3)	-
Due from other state agencies (note 3)	21,000
Due from local governments	35,851
Capital assets, net of accumulated depreciation (note 4)	<u>21,373</u>
Total assets	<u>561,316</u>
LIABILITIES	
Accounts payable	33,346
Payroll benefits payable	13,094
Payroll taxes payable	7,269
Accrued salaries	57,340
Due to state general fund (note 7)	1,495
State dated warrants	1,299
Compensated absences: (note 5)	
Due within one year	120,023
Due in more than one year	<u>23,000</u>
Total liabilities	<u>256,866</u>
NET ASSETS:	
Invested in capital assets (note 4)	21,373
Restricted	-
Unrestricted	<u>283,077</u>
Total net assets	<u><u>\$ 304,450</u></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, 2011

	Governmental Activities
Expenses:	
General government - audit services	
Personal services & employee benefits	\$ 2,321,700
Contractual services	166,392
Other Costs	390,677
Depreciation	5,444
Total program expenses	2,884,213
Program revenues:	
Charges for audit services	498,427
Miscellaneous revenue	221
Total program revenues	498,648
Net program expense	(2,385,565)
General revenues:	
State general fund appropriation (note 8)	2,197,600
Reversions (note 7)	(1,495)
Total general revenues	2,196,105
Special item - loss on property disposition	-
Change in net assets	(189,460)
Net assets, beginning	493,910
Net assets, ending	\$ 304,450

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, 2011**

Exhibit C

	General Fund
ASSETS	
Petty Cash	\$ 100
Investment in General Fund Investment Pool (note 2)	482,992
Accounts receivable, net of allowance (note 3)	-
Due from Other State Agencies (note 3)	21,000
Due from local governments	35,851
Total assets	\$ 539,943
LIABILITIES AND FUND BALANCES	
Accounts payable	\$ 33,346
Payroll benefits payable	13,094
Payroll taxes payable	7,268
Accrued salaries	57,341
Due to state general fund (note 7)	1,495
Stale dated warrants	1,299
Deferred revenue	3,000
Total liabilities	116,843
FUND BALANCES	
Fund balances:	
Committed to:	
Fiscal Year 2012 Budget	199,400
Assigned to:	
Audit Expenses	223,600
Unassigned:	100
Total fund balances	423,100
Total liabilities and fund balances	\$ 539,943

Amounts reported in the statement of net assets differ because:

Total fund balances	\$ 423,100
Capital assets reported in governmental activities are not financial resources and therefore are not reported in the funds	21,373
Compensated absences accrued in the government-wide financial statements but not due and payable at fiscal year end	(143,023)
Revenue deferred in fund financial statements due to not being available at June 30, 2011	3,000
Net assets per Statement of Net Assets	\$ 304,450

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, 2011

	<u>General Fund</u>
Revenues:	
Charges for audit services	\$ 495,427
Miscellaneous revenue	221
Total revenues	<u>495,648</u>
Expenditures:	
General government:	
Current:	
Personal services & employee benefits	2,329,576
Contractual services	166,392
Other costs	390,677
Capital outlay	<u>6,414</u>
Total expenditures	<u>2,893,059</u>
Excess (deficiency) of revenues over expenditures	<u>(2,397,411)</u>
Other financing sources (uses):	
State general fund appropriation (note 8)	2,197,600
Reversions to State General Fund (note 7)	<u>(1,495)</u>
Total other financing sources (uses)	<u>2,196,105</u>
Net change in fund balances	(201,306)
Fund balance, beginning	<u>624,406</u>
Fund balance, ending	<u>\$ 423,100</u>

Amounts reported in the Statement of Activities are different because:

Net change in fund balances	\$ (201,306)
Increase since PY in capital assets net of accumulated depreciation CY 21,373 less PY 20,403 equals increase of 970	970
Decrease since PY in compensated absences PY 150,899 less CY 143,023 equals increase of 7,876	7,876
Increase since PY in deferred revenue from zero to \$3000 only in the fund financial statements	<u>3,000</u>
Change in net assets of governmental activities	<u>\$ (189,460)</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, 2011**

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	\$ 2,291,000	\$ 2,197,600	\$ 2,197,600	\$ -
Charges for audit services	430,000	430,000	495,427	65,427
Miscellaneous revenue	-	-	221	221
Total revenues	<u>2,721,000</u>	<u>2,627,600</u>	<u>2,693,248</u>	<u>65,648</u>
Fund Balance Budgeted:				
Fund 11200 Fund Balance	418,100	418,100	201,306	(216,794)
Total budgeted fund balance	<u>418,100</u>	<u>418,100</u>	<u>201,306</u>	<u>(216,794)</u>
Total budgeted revenue and fund balance	<u>\$3,139,100</u>	<u>\$3,045,700</u>	<u>\$2,894,554</u>	<u>\$ (151,146)</u>
Expenditures and other uses:				
General government:				
Personal services & employee benefits	\$2,581,900	\$2,477,388	\$2,329,576	\$ 147,812
Contractual services	159,300	168,472	166,392	2,080
Other	397,900	399,840	397,091	2,749
Total expenditures and other uses	<u>\$3,139,100</u>	<u>\$3,045,700</u>	<u>\$2,893,059</u>	<u>\$ 152,641</u>

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. Only the portion of current compensated absences related to payments due to retired

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or terminated employees as of June 30, 2011, 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, 2011, there was deferred revenue of \$3,000 in the fund financial statements. This amount was related to the FY03 receivable from African American Affairs that was not collected within the 60 day period of availability after the end of the fiscal year.

D. Receivables and payables

When applicable, 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 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. The legal level of budgetary control is at the appropriation program level (P-Code level). Section 9 of the General Appropriation Act of 2010, allows all agencies to request category transfers among personal services and employee benefits, contractual services and other. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.
7. According to subsection M of Section 3 of the General Appropriation Act of 2010 (Laws of 2010 Second Special Session, House Bill 2) "for the purpose of administering the General Appropriation Act of 2010 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 would be an amount payable at June 30, 2011 that did not get paid by the statutory deadline after the end of the fiscal year. The cash to pay such a payable is reverted to the State General Fund on September 30, 2011, 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. The Office did not have any such exceptions at June 30, 2011.

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8. The FY11 budget of \$2,291,000 for fund 11100 was decreased a total of 4.0% by the 2010 Second Special Session of the Legislature's approval of House Bill 2. This statute resulted in a total decrease to Personal Services and Benefits of \$78,600; a decrease to Contractual Services of \$3,700 and a decrease to Other Costs of \$11,100.
9. Single-year appropriations lapse 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, are paid out of the next year's budget. The Office did not have any accounts payables at June 30, 2011 that were not paid within the required time period.

In accordance with the requirements of Section 2.2.2.10.A(2)(b) 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 at a specified pay period in either January or July. 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, 2011, the liability for compensation time owed to twelve employees totaled \$7,362.

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, 2011, 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 \$21,373 equal the capital assets, net of accumulated depreciation.

Unrestricted net assets of \$283,077 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**, the fund balance is reported in classifications that comprise a hierarchy based on the extent to which the Office is bound to honor

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constraints on the specific purposes for which amounts in those funds can be spent. Fund 11200 cash balance amounts that the New Mexico Legislature and Governor have approved in statute, for the next year's budget, are reported as committed fund balance. Unexpended fund 11200 amounts that have not yet been committed by statute for expenditure in a specific future fiscal year, that are required by Section 12-6-13 NMSA 1978 to be used for audit expenses, are reported as assigned fund balance. This new fund balance presentation is required by the implementation of GASBS 54 in the fiscal year ended June 30, 2011. The Office cannot legally expend assigned fund balance amounts until the budget process changes the status of the assigned fund balance to committed fund balance.

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, 2011:

Name of Account	SHARE Fund Name	SHARE Fund #	Balance Per Books
Investment in General Fund Investment Pool	State Auditor Administration	11100	\$ 104,788
Investment in General Fund Investment Pool	State Auditor IPA- Audits	11200	<u>378,204</u>
Subtotal of Investments			482,992
Petty Cash			<u>100</u>
Total Investments and Petty Cash			<u><u>\$ 483,092</u></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

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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, 2011, 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

Article IV Section 32 of the New Mexico Constitution states that “No obligation or liability of any person, association or corporation held or owned by or owing to the state, or any municipal corporation therein, shall ever be exchanged, transferred, remitted, released, postponed or in any way diminished by the legislature, nor shall any such obligation or liability be extinguished except by the payment thereof into the proper treasury, or by proper proceeding in court.” The Office works with agencies that owe the Office money for services provided in previous fiscal years, to facilitate the eventual payment of amounts due to the Office. In the meantime, old account receivable amounts are offset by an allowance for doubtful receivables in the Office financial statements. The Office has not written off any old receivables during the current fiscal year or during previous fiscal years.

The Office requested payment of two old account receivable amounts that had been carried by the Office since the fiscal year ended June 30, 2003: \$8,163 due from Quay County; and \$3,000 due from African American Affairs (SHARE unit 60300 and fund 284000). The \$8,163 payment from Quay County was received on August 10, 2011. The \$3,000 payment from African American Affairs is expected to be received by the Office early in the second quarter of FY12, but not within the 60 day period of availability. Therefore, the old allowance for doubtful receivables amount of \$11,163 was reversed into audit fee revenue for the fiscal year ended June 30, 2011. In addition, the \$3,000 amount expected from African American Affairs is shown as deferred revenue in the fund financial statements only because it is not considered “available” at June 30, 2011. Accounts receivable at June 30, 2011 consist of:

Other State Agencies	SHARE Unit	SHARE Fund	Amount
African American Affairs	60300	284000	\$ 3,000
Children, Youth & Families	69000	067000	18,000
Subtotal			<u>21,000</u>

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Due from local Governments		
Quay County		8,163
City of Albuquerque		27,688
Subtotal		35,851
Total		\$ 56,851

4. Changes in Capital Assets

Summaries of changes in capital assets and accumulated depreciation follow:

Historical Cost	Balance				Balance
	6/30/10	Adjustments	Additions	Deletions	6/30/11
Furniture and fixtures	\$ 16,893	\$ -	\$ -	\$ -	\$ 16,893
Info Technology Equipment	89,396	-	6,414	(6,679)	89,131
Software	18,078	-	-	-	18,078
Motor Vehicle	14,711	-	-	-	14,711
	\$ 139,078	-	\$ 6,414	(\$6,679)	\$ 138,813
Totals	\$ 139,078	-	\$ 6,414	(\$6,679)	\$ 138,813
Related Depreciation	Balance				Balance
	6/30/10	Adjustments	Additions	Deletions	6/30/11
Furniture and fixtures	\$ 9,667	\$ -	\$ 1,079	\$ -	\$ 10,746
Info Technology Equipment	76,219	-	4,365	(6,679)	73,905
Software	18,078	-	-	-	18,078
Motor Vehicle	14,711	-	-	-	14,711
	\$ 118,675	-	\$ 5,444	\$ (6,679)	\$ 117,440
Totals	\$ 118,675	-	\$ 5,444	\$ (6,679)	\$ 117,440
Assets, net of Depreciation	Balance				Balance
	6/30/10	Adjustments	Additions	Deletions	6/30/11
Furniture and fixtures	\$ 7,226	\$ -	\$ (1,079)	\$ -	\$ 6,147
Info Technology Equipment	13,177	-	2,049	-	15,226
Software	-	-	-	-	-
Motor Vehicle	-	-	-	-	-
	\$ 20,403	-	970	-	\$ 21,373
Totals	\$ 20,403	-	970	-	\$ 21,373

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5. Changes in Compensated Absences

A summary of changes in the compensated absences liabilities follows:

	Balance 7/1/10	Increase	(Decrease)	Balance 6/30/11	Amount Due in 1 Year
Annual Leave	\$ 138,231	\$ 108,458	\$(111,721)	\$ 134,968	\$ 111,968
Sick Leave	486	3,547	(3,340)	693	693
Comp-Time	12,182	19,168	(23,988)	7,362	7,362
Total Compensated Absences	\$ 150,899	\$ 131,173	\$(139,049)	\$ 143,023	\$ 120,023

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.

6. Operating Leases

The Office had nine operating leases at July 1, 2010 for the following items: a Pitney Bowes postage meter; two Xerox photocopiers; four vehicles leased from General Services Department, and two office buildings. The small postage meter that cost a total of \$546 during FY11, was originally obtained in FY10. The Office obtained two leased Xerox photocopiers on July 3, 2007. The payments for the large copier were \$835 per month (plus the cost of extra copies) during FY11, resulting in a total cost of \$12,986. The payments for the smaller copier were \$250 per month, resulting in a total cost of \$2,513 during FY11. The Office returned the smaller Xerox copier to Xerox when the Albuquerque office was closed the end of April 2011. The Office made twelve lease payments totaling \$18,384 during FY11, for four vehicles that are leased from the New Mexico General Services Department. The Office had a lease agreement for office space in Albuquerque on July 1, 2010. The Office exercised the nonappropriation clause in this cancellable lease and closed the Albuquerque office on April 30, 2011. Total cost of the Albuquerque office in FY11 was \$63,495. In October of 2008, the Office entered into a lease agreement for the current 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 \$192,565 for this lease during FY11.

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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, 2011, from the General Administration Account (Fund 11100):

Petty cash and investment in general fund investment pool, June 30, 2011 (Administration Account, Fund 11100)	\$ 104,888
Less: Accounts payable, June 30, 2011	(30,126)
Accrued salaries and related liabilities, June 30, 2011	(71,868)
Fund balance for petty cash, June 30, 2011	(100)
Due to State General Fund, June 30, 2011	\$ 2,794

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

FY11 unencumbered unexpended general fund appropriation	\$ 1,035
FY11 Employee Assistance Program (EAP) refund	460
Stale dated warrants	1,299
Total Reversions	\$ 2,794

8. Transfers

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	\$ 2,197,600	Appropriation allotments

The office made payments to the State General Fund (85300) during FY11 totaling the amount shown below, for reversions related to appropriations from FY10.

Date	SHARE fund from/to	Amount	Purpose of the Payments
9/14/2010	11100/85300	\$ 3,597	Reversions to the State General Fund

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8. 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 benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA’s website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute from 4.0% 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, 2011, 2010, and 2009 were \$256,129, \$280,547, and \$284,846 respectively, which equal the amount of the required contributions for each fiscal year.

9. 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

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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 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. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee’s annual salary; each participating employee was required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 and 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>
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.

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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, 2011, 2010, and 2009 were \$ 28,090, \$ 23,661, and \$21,408 respectively, which equal the required contributions for each year.

11. 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.

12. 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)	\$ 2,693,248
Difference	<u>0</u>
Revenues per Modified Accrual Fund Financial Statements excluding the reversion amount (Exhibit D)	<u>\$ 2,693,248</u>
Total agency expenditures per SHARE A611 Trial Balance Report and Budget Basis amount (Exhibit E)	\$ 2,893,059
Difference	<u>0</u>
Total agency expenditures on the modified accrual basis excluding reversion amount (Exhibit D)	<u>\$ 2,893,059</u>

13. Subsequent Events

The total final budget for FY11 was \$3,045,700. The Office total budget for FY12 reflects an additional 8% decrease. The Laws of 2011 HB2 Appropriation was for

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\$2,833,400. But the approved OPBUD-3 for FY12 reflected a decrease of an additional 1%, resulting in an expected FY12 budget of \$2,807,400.

The Office has submitted an FY13 budget request for Fund 11200 that includes budgeting \$200,000 of the June 30, 2011 assigned fund balance of \$223,600. There may be very little fund balance left, if any, in Fund 11200 to budget in fiscal years after FY13. The FY13 budget request submitted September 1, 2011, also reflected 8 vacant positions and one employee out on extended leave, out of 33 full time employees.

There is a possibility that the Office will be able to amend the contract with the City of Albuquerque for the annual financial and compliance audit of the fiscal year ended June 30, 2010. The amount of the proposed contract amendment is \$7,020.

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**Combining Balance Sheet - General Fund Accounts
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	SHARE FUND 11100 Adm. Account	SHARE FUND 11200 IPA Account	TOTAL GENERAL FUND
ASSETS			
Petty Cash	\$ 100	\$ -	\$ 100
Investment in General Fund Investment Pool	104,788	378,204	482,992
Accounts receivable (net of allowance for doubtful accounts)	-	-	-
Due from other state agencies	-	21,000	21,000
Due from local governments	-	35,851	35,851
	<u>104,888</u>	<u>435,055</u>	<u>539,943</u>
Total assets	<u>\$ 104,888</u>	<u>\$ 435,055</u>	<u>\$ 539,943</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 30,126	\$ 3,220	\$ 33,346
Payroll benefits payable	10,835	2,259	13,094
Payroll taxes payable	6,191	1,077	7,268
Accrued salaries	54,842	2,499	57,341
Due to State General Fund	1,495	-	1,495
Stale dated warrants	1,299	-	1,299
Deferred revenue	-	3,000	3,000
	<u>104,788</u>	<u>12,055</u>	<u>116,843</u>
Total liabilities	<u>104,788</u>	<u>12,055</u>	<u>116,843</u>
Fund balances:			
Committed to:			
Fiscal Year 2012 Budget	-	199,400	199,400
Assigned to:			
Audit Expenses	-	223,600	223,600
Unassigned:	<u>100</u>	<u>-</u>	<u>100</u>
Total fund balances	<u>100</u>	<u>423,000</u>	<u>423,100</u>
Total liabilities and fund balances	<u>\$ 104,888</u>	<u>\$ 435,055</u>	<u>\$ 539,943</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, 2011

	SHARE FUND 11100 Adm. Account	SHARE FUND 11200 IPA Account	TOTAL GENERAL FUND
Revenues:			
Charges for audit services	\$ -	\$ 495,427	\$ 495,427
Miscellaneous revenue	460	(239)	221
Total revenues	<u>460</u>	<u>495,188</u>	<u>495,648</u>
Expenditures			
General government:			
Current:			
Personal services & employee benefits	1,785,437	544,140	2,329,576
Contractual services	123,320	43,072	166,392
Other costs	281,395	109,282	390,677
Capital outlay	6,414	-	6,414
Total expenditures	<u>2,196,565</u>	<u>696,494</u>	<u>2,893,059</u>
Excess (deficiency) of revenues over expenditures	<u>(2,196,105)</u>	<u>(201,306)</u>	<u>(2,397,411)</u>
Other financing sources (uses):			
State General Fund Appropriation	2,197,600	-	2,197,600
Special General Fund Appropriation	-	-	-
Compensation Appropriation	-	-	-
Reversion to State General Fund	(1,495)	-	(1,495)
Total other financing sources (uses)	<u>2,196,105</u>	<u>-</u>	<u>2,196,105</u>
Net change in fund balances	-	(201,306)	(201,306)
Fund balance, beginning	<u>100</u>	<u>624,306</u>	<u>624,406</u>
Fund balance, ending	<u>\$ 100</u>	<u>\$ 423,000</u>	<u>\$ 423,100</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, 2011

	<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	\$ 2,291,000	\$ 2,197,600	\$ 2,197,600	\$ -
Miscellaneous revenue	-	-	460	460
	<u>\$ 2,291,000</u>	<u>\$ 2,197,600</u>	<u>\$ 2,198,060</u>	<u>\$ 460</u>
Total budgeted revenues				
Expenditures and other uses:				
General government:				
Personal services & employee benefits	\$ 1,890,000	\$ 1,785,488	\$ 1,785,436	\$ 52
Contractual services	114,600	123,772	123,320	452
Other	286,400	288,340	287,809	531
	<u>\$ 2,291,000</u>	<u>\$ 2,197,600</u>	<u>\$ 2,196,565</u>	<u>\$ 1,035</u>
Total expenditures and other uses				

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for audit services	\$ 430,000	\$ 430,000	\$ 495,427	\$ 65,427
Miscellaneous revenue	-	-	(239)	(239)
Total revenues	430,000	430,000	495,188	65,188
Prior-year funds re-budgeted	418,100	418,100	201,306	(216,794)
Total budgeted revenues and fund balance	<u>\$ 848,100</u>	<u>\$ 848,100</u>	<u>\$ 696,494</u>	<u>\$ (151,606)</u>
Expenditures:				
General government:				
Personal services & employee benefits	\$ 691,900	\$ 691,900	\$ 544,140	\$ 147,760
Contractual services	44,700	44,700	43,072	1,628
Other	111,500	111,500	109,282	2,218
Total expenditures	<u>\$ 848,100</u>	<u>\$ 848,100</u>	<u>\$ 696,494</u>	<u>\$ 151,606</u>

The accompanying notes are an integral part of the financial statements



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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

Honorable Hector H. Balderas, Esq.
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, 2011, and have issued our report thereon dated October 10, 2011. 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

The Office's management is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 and its committees and the New Mexico Department of Finance and Administration 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.
Espanola, New Mexico
October 10, 2011

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR

Schedule of Findings and Responses
June 30, 2011

	<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, 2011**

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 October 6, 2011 with the following in attendance:

Office of the State Auditor

The Honorable Hector H. Balderas, Esq., New Mexico State Auditor
Carla Martinez, Esq., CPA, CFO through 6/30/11, Deputy State Auditor
Evan Blackstone, Esq., Chief of Staff
Lori Martinez, Esq., General Counsel
Kathy Neidigk, CPA, CFO beginning 7/1/11, Audit Manager
Rita Archuleta, Director of Budget and Finance

Audit Firm

James R. Macias, CPA