

OFFICE OF THE STATE AUDITOR
Timothy M. Keller



Financial Statements
Year ended June 30, 2017
(With Independent Auditor's Report Thereon)

**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
June 30, 2017**

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**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
June 30, 2017**

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

**Official Roster
June 30, 2017**

<u>Name</u>	<u>Title</u>
Timothy M. Keller, MBA, CFE	State Auditor
Sanjay Bhakta, CPA, CGFM, CFE, CGMA	Deputy State Auditor/Chief Financial Officer
Sunalei Stewart, JD, MA, CFE	Chief of Staff
Sarita Nair, JD, MCRP	Chief Government Accountability Officer/General Counsel
Lynette Kennard, CPA, CGFM	Financial Audit Director
Emily Oster, MACCT, CPA, CGMA	Compliance and Quality Control Director
Kevin Sourisseau, CPA	Special Investigation Division Director
Janelle Johnson, MA	Government Accountability Officer
Antonio Medina	Budget and Finance Director

INDEPENDENT AUDITORS' REPORT

The Honorable Timothy M. Keller
New Mexico State Auditor
Office of the State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the budgetary comparison of the general fund of the State of New Mexico Office of the State Auditor (Office), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents. We also have audited the financial statements and budgetary comparisons of the individual SHARE accounts presented as supplementary information, as defined by the Governmental Accounting Standards Board in the accompanying combining and individual SHARE accounts financial statements as of and for the year ended June 30, 2017 as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 Office as of June 30, 2017, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financials referred to above present fairly, in all material respects, the respective financial position of each individual SHARE account of the Office as of June 30, 2017 and the respective change in financial position thereof, and the respective budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the State of New Mexico, Office of the State Auditor 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, 2017, and the changes in its financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages viii through xviii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements, the combining and individual fund financial statements, and the budgetary comparisons that collectively comprise the Office's basic financial statements. The Schedule of Performance Measure Results in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2017, on our consideration of the Office's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

Assurance Tax Accounting P.C.

Assurance Tax Accounting P.C.
Albuquerque, New Mexico
October 17, 2017

Management's Discussion and Analysis

The Office of the State Auditor's (Office) discussion and analysis is provided as an overview of the financial activities of the Office for the fiscal year ended June 30, 2017.

Basic Financial Statements

In compliance with requirements of accounting principles generally accepted in the United States of America (U.S. 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.

The audit opinion also covers additional information consisting of:

- Combining and individual fund financial statements, and
- Individual Statewide Human Resources Accounting and Management Reporting System (SHARE) account budget comparison statements.

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

A Schedule of Performance Measure Results and Next Year's Target is presented as audited supplemental information (SI).

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. The statement of net position presents financial information on all of the Office's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Office of the State Auditor is improving or deteriorating. The statement of activities presents information showing how the Office's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., earned but uncollected audit fee revenues and earned but unused vacation leave). The government-wide financial statements present the expenses of the Office by function. The only function of the Office is general government. The government-wide financial statements distinguish between governmental activities and business-type activities. The Office has only governmental activities, with no business-type activities to report.

Fund Financial Statements

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. The Office, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Office has only one fund, the General Fund, and it is a “governmental fund” type.

“Governmental funds” are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Office maintains two SHARE accounts that are combined to create the Office’s general fund. Information about the Office’s general fund is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. Individual SHARE account data is provided in the form of combining statements in the combining and individual fund financial statement section of this report as required by Section 2.2.2.12(A)(2) NMAC.

The Budget Comparison Statement

The Office general fund 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(A)(2)(b)(iii) 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.

Since the Office general fund consists of two individual SHARE funds (or accounts), the two individual account budget comparison statements have been included following the combining statements in order to demonstrate budget compliance at the SHARE fund level.

Notes to the Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Supplemental Information

The report also includes supplementary information consisting of a Schedule of Performance Measure Results. This schedule provides information about the Office's FY17 performance measure targets that were part of the Office's appropriation for the fiscal year, and the related results. In addition, the performance measure targets for the upcoming year are included to show what the Office's future performance goals are.

Government-Wide Condensed Financial Information

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.

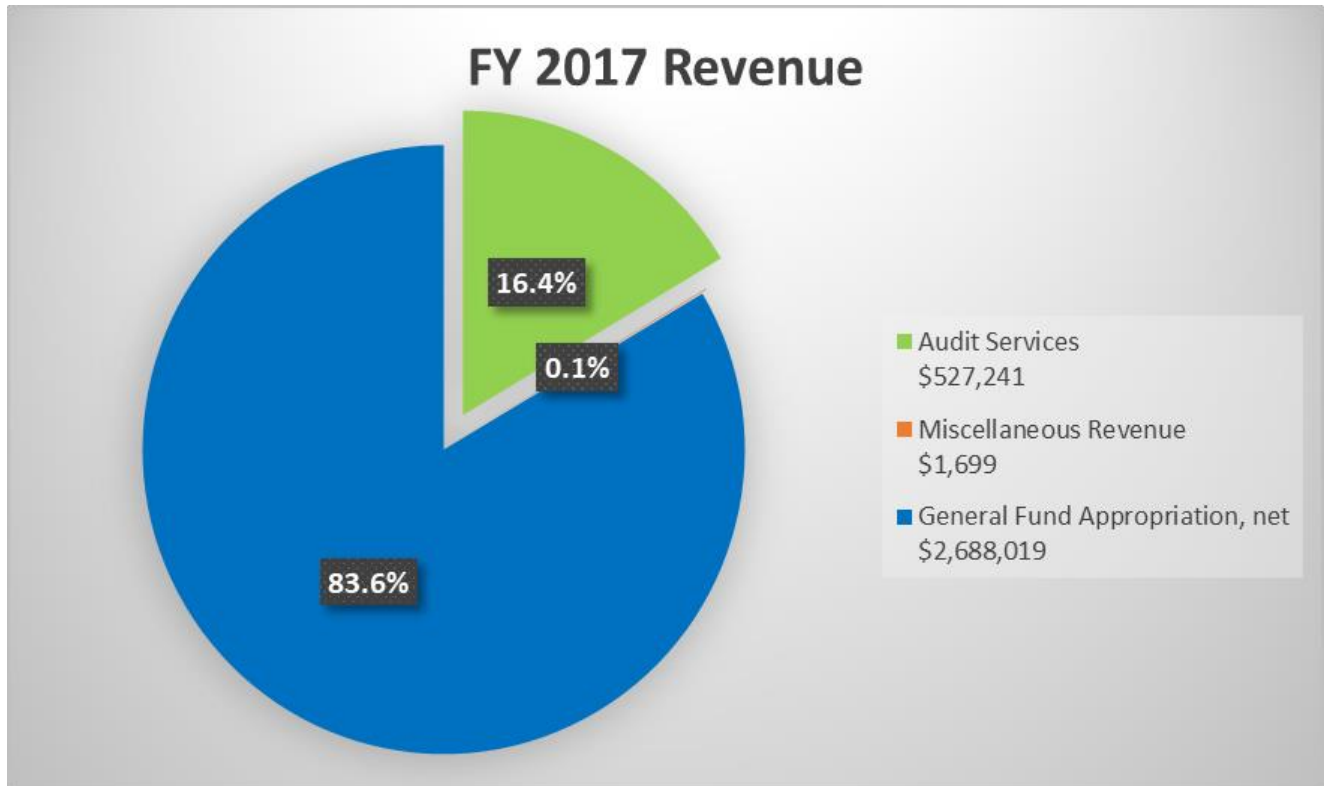
Office of the State Auditor's Net Position			
	FY 2017	FY 2016	Change
Petty Cash	\$ 100	\$ 100	\$ -
Investment in State General Fund Investment Pool	973,518	1,095,524	(122,006)
Receivables	22,191	-	22,191
Capital assets, net of accumulated depreciation	9,289	17,718	(8,429)
Total assets	\$ 1,005,098	\$ 1,113,342	\$ (108,244)
Accounts payable	\$ 39,230	\$ 17,973	21,257
Accrued salaries & employee benefits	108,588	101,486	7,102
Due to State General Fund	2,381	3,802	(1,421)
Compensated absences	123,080	112,682	10,398
Due to Other State Agencies	-	-	-
Total liabilities	273,279	235,943	37,336
Net position, investment in capital assets	9,289	17,718	(8,429)
Net position, unrestricted	722,530	859,681	(137,151)
Total net position	\$ 731,819	\$ 877,399	\$ (145,580)

The unrestricted net position amount of \$722,530 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 Position

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Change</u>
Program revenues			\$
Audit services	\$ 527,241	\$ 432,310	94,931
Miscellaneous revenue	<u>1,699</u>	<u>2,417</u>	<u>(718)</u>
Total program revenues	<u>528,940</u>	<u>434,727</u>	<u>94,213</u>
General revenue			
General Fund appropriation, net	<u>2,688,019</u>	<u>2,943,998</u>	<u>(255,979)</u>
Total general revenues	<u>2,688,019</u>	<u>2,943,998</u>	<u>(255,979)</u>
			\$
Total program and general revenues	<u>\$ 3,216,959</u>	<u>\$ 3,378,725</u>	<u>(161,766)</u>

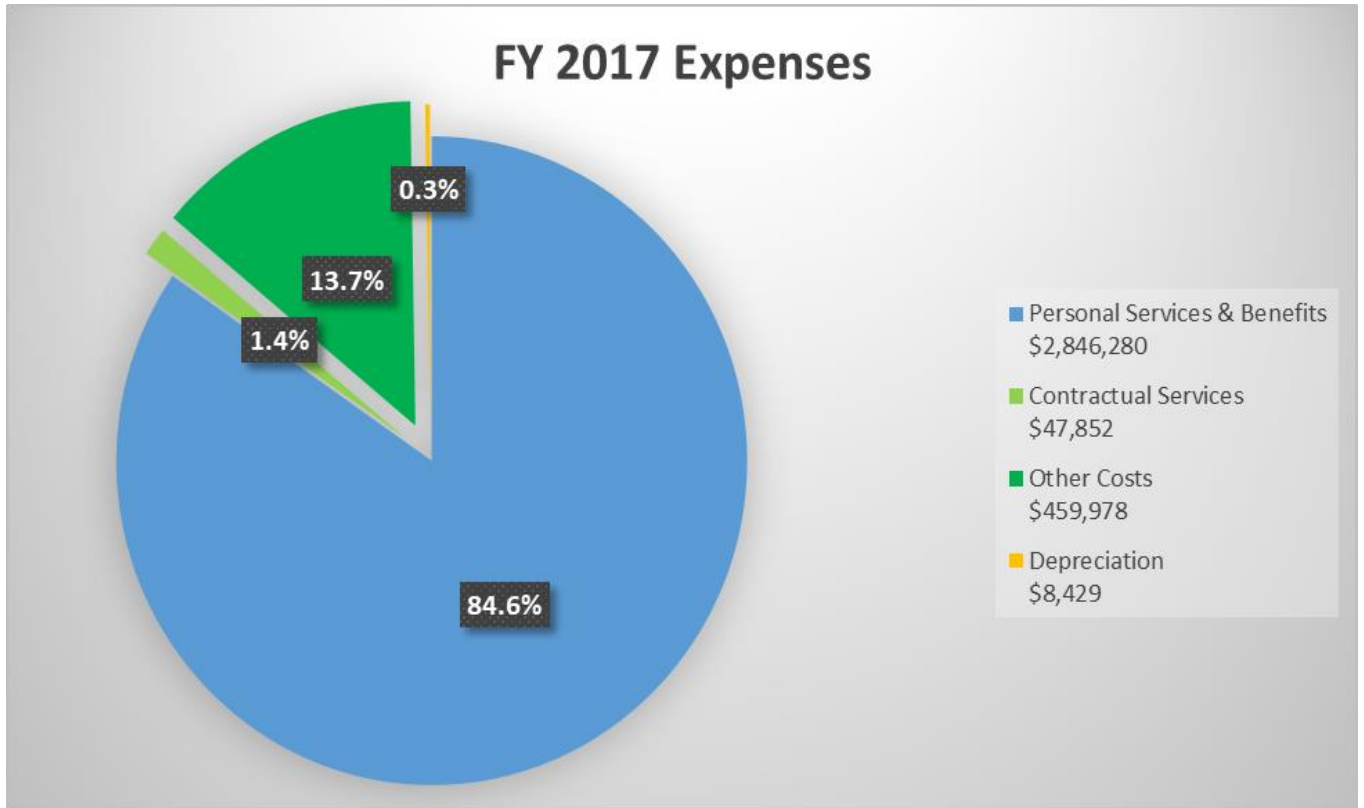
The Office's Program and General Revenues for fiscal year ended June 30, 2016 are depicted in the chart below.



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

	FY 2017	FY 2016	Change
Program expenses			
Personal Services & Benefits	\$ 2,846,280	\$ 2,858,121	\$ (11,841)
Contractual Services	47,852	87,676	(39,824)
Other Costs	459,978	532,246	(72,268)
Depreciation	8,429	9,609	(1,180)
Total program expenses	<u>3,362,539</u>	<u>3,487,652</u>	<u>(125,113)</u>
Change in net position	(145,580)	(108,927)	(36,653)
Beginning, net position	<u>877,399</u>	<u>986,326</u>	<u>(108,927)</u>
Ending, net position	<u>\$ 731,819</u>	<u>\$ 877,399</u>	<u>\$(145,580)</u>

Office of the State Auditor expenses by category for the fiscal year ended June 30, 2017 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). 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. There were no such accounts payable as of June 30, 2017, and therefore no negative fund balance. SHARE fund 11200 (IPA Account) is non-reverting. Therefore, the assigned fund balance is available for future appropriation. The committed fund balance in fund 11200 is not available because it has already been committed for expenditure in a subsequent fiscal year by statutes approved by the legislature and the governor.

Fund Balance	<u>FY 2017</u>	<u>FY 2016</u>	<u>FY 2015</u>
Committed for subsequent years	\$ 755,000	\$ 812,700	\$ 399,300
Assigned to audit expenses	90,510	159,563	687,407
Unassigned	<u>100</u>	<u>100</u>	<u>100</u>
Total Fund Balance	<u>\$ 845,610</u>	<u>\$ 972,363</u>	<u>\$ 1,086,807</u>

The fund balance available for appropriation in future fiscal years, is presented as “Assigned to Audit Expenses.” It is generated from audit fees earned by the Office. Changes have occurred in this available fund balance as follows:

- Decreased from FY15 to FY16 by \$527,844; and
- Decreased from FY16 to FY17 by \$69,053.

The \$527,844 decrease in assigned fund balance in FY16 was the result of a decrease in revenue over expenditures of \$114,444 less the \$413,400 increase in fund balance committed for FY17 budget.

The \$69,053 decrease in assigned fund balance in FY17 was the result of a decrease in revenue over expenditures of \$126,753 plus the \$57,700 decrease in fund balance committed for FY18 budget.

During the same period of time, audit fee revenue on the modified accrual basis increased by \$94,931 between FY16 and FY17 and increased \$7,842 between FY15 and FY16.

Audit Fee Revenue (Modified Accrual Basis)

	FY 2017	FY 2016	FY 2015
Audit Fee Revenues	\$527,241	\$432,310	\$424,468

In FY17 the Office earned \$527,241 of audit fees on the modified accrual basis, as shown below. This is an increase of \$94,931 over the prior year revenue collection.

<u>Agency</u>	<u>Type of Audit</u>	<u>Amount</u>
Tierra Amarilla Land Grant	Agreed-upon procedures	\$ 1,200
NM Mortgage Finance Authority	Annual financial and compliance audit	108,000
Town of Estancia	Special Audit	1,250
Office of the Superintendent of Insurance	Annual financial and compliance audit	85,000
NM CAP Entity	Annual financial and compliance audit	10,000
NM Corrections Department	Annual financial and compliance audit	135,000
NM Higher Education Department	Annual financial and compliance audit	80,000
NM Connections Academy	Annual financial and compliance audit	2,400
NM General Services Department	Special Audit	54,000
Dora Consolidated Schools	Special Audit	9,000
Mesa Del Sol TIDD	Special Audit	1,200
City of Jal	Special Audit	18,000
Office of the Superintendent of Insurance	Special Audit	22,191
Total FY 2017		\$ 527,241

In FY16 the Office earned \$432,310 of audit fees on the modified accrual basis, as shown below. This is an increase of \$7,842 over the prior year revenue collection.

<u>Agency</u>	<u>Type of Audit</u>	<u>Amount</u>
NM Mortgage Finance Authority	Annual financial and compliance audit	\$ 108,000
Bernalillo County	Annual financial and compliance audit	56,160
Rio Rancho Public Schools	Annual financial and compliance audit	20,700
Office of the Superintendent of Insurance	Annual financial and compliance audit	55,000
NM Department of Corrections	Annual financial and compliance audit	110,000
City of Ruidoso Downs	Special Audit	20,000

Eastern New Mexico University	Special Audit	36,000
Village of Estancia	Special Audit	23,750
Health Policy Commission	Annual financial and compliance audit	2,700
Total FY 2016		\$ 432,310

In FY15 the Office earned \$424,468 of audit fees on the modified accrual basis, as shown below. This was a decrease of \$21,312 over the prior year amount of \$445,780. Audit fees totaling \$750 from performing agreed-upon procedures engagements for small acequias, had to be shown as “deferred inflows of resources – unavailable revenue,” because it was not collected within the period of availability after the end of the fiscal year. This was recognized in FY15.

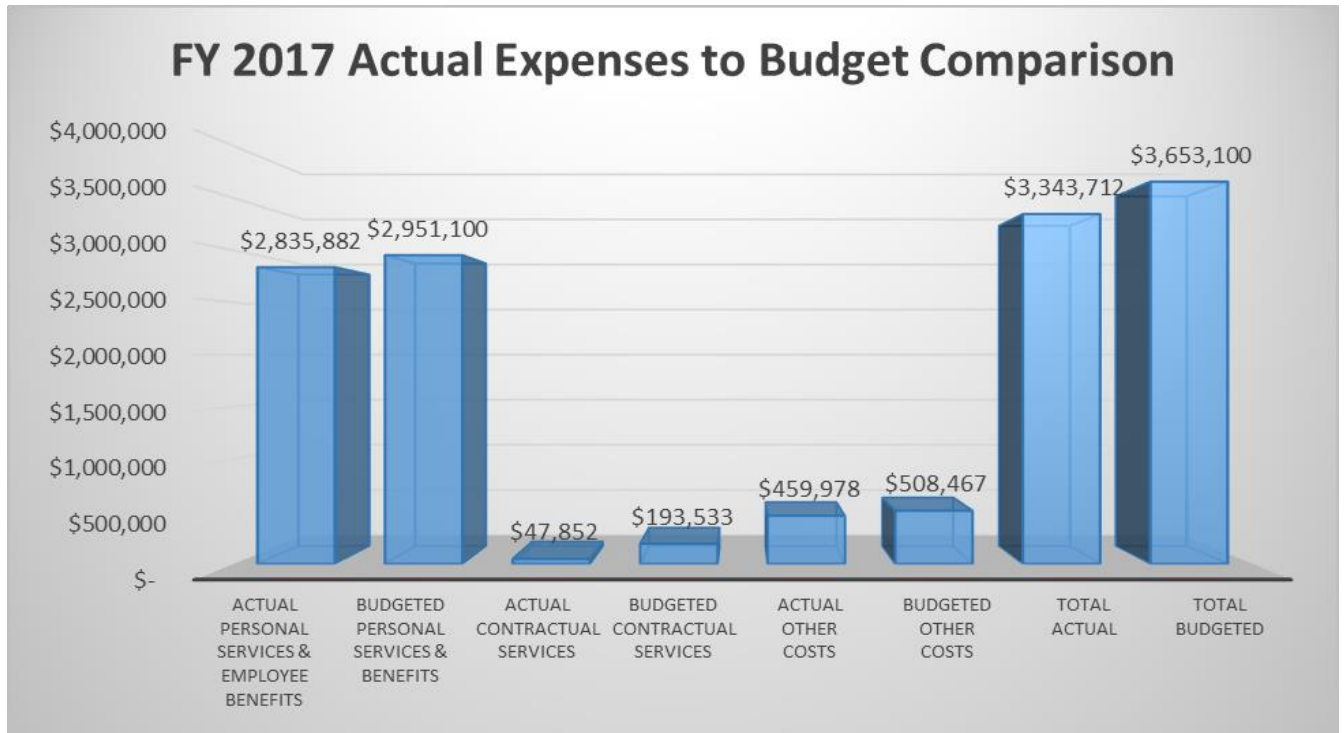
<u>Agency</u>	<u>Type of Audit</u>	<u>Amount</u>
Bernalillo County	Annual financial and compliance audit	\$ 56,130
NM Department of Corrections	Annual financial and compliance audit	51,750
NM Mortgage Finance Authority	Annual financial and compliance audit	108,000
NM Junior College	Annual financial and compliance audit	14,648
Office of the Superintendent of Insurance	Annual financial and compliance audit	46,000
NM State University	Annual financial and compliance audit	77,495
Hachita Mutual Domestic Water Association	Annual financial and compliance audit	10,500
Agua Fria Community Water System Association	Annual financial and compliance audit	2,580
McKinley County	Special Audit	24,000
Various Acequias	Agreed-upon procedures	33,365
Total FY 2015		\$ 424,468

General Fund Budgetary Highlights

The New Mexico Legislature’s General Appropriation Act of 2016 (GAA) adopted a total original FY17 general fund appropriation for the Office of \$2,847,000. In October 2016, due to a sharp decline in revenue for the state, the Legislature convened a Special Session. During the Special Session, a bill was passed and later signed by the governor (Laws 2016, 2nd SS, Chapter 6, Section 2(A)) reducing certain general fund appropriations. In November 2016, the Office general fund appropriation was reduced by 5.5%, or \$156,600. The reduction resulted in a final General Fund appropriation of \$2,690,400.

The Office had one Budget Adjustment Requests (BAR), as authorized in Subsection E, Paragraph 14 of Section 9 of the GAA, in FY17. The total final adjusted FY17 budget, including General Fund and Other State Funds, was \$3,653,100. For additional budget information see also Exhibit E in the financial statements section, Note 1 (D), and Statements 3 and 4 in the

combining and individual fund financial statements section of the report. The following chart also reflects the actual-to-budget comparisons for the fiscal year.



Capital Assets

The Office’s net investment in capital assets is \$9,289. There is no debt related to these capital assets. During FY17, the Office had no purchases of capital assets. Depreciation expense for the year was \$8,429. The Office disposed of no capital assets in FY17. As a result of this activity, the investment in capital assets, net of accumulated depreciation changed from \$17,718 at June 30, 2016, to \$9,289 at June 30, 2017, for a net decrease of \$8,429.

Long-term Debt

The total compensated absences liability increased in FY17 by \$10,398, from \$112,682 at June 30, 2016, to \$123,080 at June 30, 2017. The increase in the liability account balance is due to a higher accrual rate for staff who have reached employment milestones combined with less leave being taken due to the increased workload of the office. The Office estimates that all of the \$123,080 balance is a current liability.

The Political Environment and Next Year’s Budget

While the State of New Mexico has experienced sharp declines in General Fund revenues in recent years, partly attributed to the decline in crude oil and natural gas prices, the decline seems to have leveled off and stabilized. While some economic indicators are forecasting that the US economy is showing steady improvement, the New Mexico economy’s recovery has been sluggish, in large part due to a slowdown of oil and gas drilling. New Mexico’s job growth has

slowed its pace, again in large part due to the slowdown of oil and gas drilling. Taxable Gross Receipts, in oil and gas producing counties like Eddy and Lea are experiencing downward trends as a result of depending on drilling activities. In August 2016, as a result of grim General Fund revenue estimates, the Governor called for a Special Legislative Session in early fall 2016. This Special Session resulted in a 5.5% cut to FY17 appropriations to most agencies.

The Office has kept a mostly flat FY18 Operating Budget over the FY17 final budget amounts, due almost entirely to exercising a portion of its BAR authority to maintain service levels. The Office is seeking an FY19 appropriation that brings funding back in line with FY15 levels and focuses on ensuring the OSA has the resources necessary to thoroughly examine and audit the financial affairs and transactions of governmental agencies that receive and expend public money, effectively oversee accounting firms conducting governmental audits, and aggressively combat fraud, waste and abuse. The request, which amounts to an overall increase of about 10.5 percent over FY18, reflects a modest increase that is essential to enabling the OSA to meet its constitutional and statutory duties.

The Office’s historic budget impact for General Fund and Audit Revenues are detailed below.

	FY2018 Operating Budget	FY 2017 Operating Budget	FY 2016 Final Budget	FY 2015 Final Budget	FY 2014 Final Budget	FY 2013 Original Budget*	FY 2012 Final Budget
Pers. Services & Employee Benefits	3,653,100	2,951,100	3,071,700	2,742,500	2,997,900	2,657,700	2,361,200
Contractual Services	193,533	74,100	97,200	399,600	75,700	65,700	78,300
Other	508,467	634,500	607,800	666,300	456,300	444,400	367,900
Total	3,653,100	3,659,700	3,776,700	3,808,400	3,529,900	3,167,800	2,807,400
Percentage Increase or (Decrease)	-0%	-3.1%	-0.8%	7.9%	11.4%	12.8%	-7.8%

* The final FY13 budget was skewed by the \$1 million plus special audit of NMFA, so the original budget is used here for FY13.

Audit Fund Reduction

One significant budget challenge facing the Office relates to the use of the Audit Fund. In recent budget cycles, the Legislature and the Governor have increased OSA’s budget reliance on the Audit Fund and decreased General Funds. While the Audit Fund provides an important

mechanism to maintain OSA operations, the current rate of reliance on the Fund is unsustainable. By appropriating a larger proportion of the OSA's budget from the Audit Fund the balance of the Fund has steadily declined. Expenditures from the Fund significantly exceed inflows from annual revenue. While the State's General Funds remain limited, it is important to begin to bring use of the Fund into balance to prevent a drastic reduction in service levels.

For FY18, the OSA's beginning operating budget includes \$755,000 in Other State Funds (OSFs). The FY19 budget request reduces this amount to \$638,100. With projected annual revenue of \$450,000, additional adjustments in subsequent fiscal years will likely be necessary to maintain the solvency of the Audit Fund.

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:

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 Position
June 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Petty cash	\$ 100
Investment in State General Fund Investment Pool (note 2)	971,137
Accounts receivable (note 3)	-
Due from other state agencies (note 8)	22,191
Capital assets, net of accumulated depreciation (note 4)	<u>9,289</u>
Total assets	<u>1,002,717</u>
LIABILITIES	
Accounts payable	39,230
Payroll benefits payable	36,193
Payroll taxes payable	21,894
Accrued salaries	50,501
Due to other state agencies (note 8)	-
Due to state general fund (note 7)	-
Compensated absences: (note 5)	
Due within one year	<u>123,080</u>
Total liabilities	<u>270,898</u>
NET POSITION	
Net investment in capital assets (note 4)	9,289
Restricted	-
Unrestricted	<u>722,530</u>
Total net position	<u><u>\$ 731,819</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, 2017**

	Governmental Activities
Expenses:	
General government - audit services	
Personal services & employee benefits	\$ 2,846,280
Contractual services	47,852
Other costs	459,978
Depreciation	8,429
Total program expenses	3,362,539
Program revenues:	
Charges for audit services	527,241
Miscellaneous revenue	1,699
Total program revenues	528,940
Net program expense	(2,833,599)
General revenues:	
State general fund appropriation - Fiscal year 2017 (note 9)	2,690,400
Reversions - Fiscal year 2017 (note 7)	(2,381)
Total general revenues and special items	2,688,019
Change in net position	(145,580)
Net position, beginning	877,399
Net position, ending	\$ 731,819

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

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2017

	General Fund
ASSETS	
Petty Cash	\$ 100
Investment in State General Fund Investment Pool (note 2)	971,137
Accounts receivable (note 3)	-
Due from other state agencies (note 8)	22,191
	993,428
Total assets	\$ 993,428
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 39,230
Payroll benefits payable	36,193
Payroll taxes payable	21,894
Accrued salaries	50,501
Due to other state agencies (note 8)	-
Due to state general fund (note 7)	-
	147,818
Total liabilities	147,818
Deferred inflows of resources:	
Unavailable revenue	-
Fund balances:	
Committed to:	
Fiscal year 2018 budget	755,000
Assigned to:	
Audit expenses	90,510
Unassigned:	100
	845,610
Total fund balances	845,610
Total liabilities, deferred inflows of resources and fund balances	\$ 993,428

Amounts reported in the statement of net position differ because:

Total fund balances	\$ 845,610
Capital assets reported in governmental activities are not financial resources and therefore are not reported in the funds	9,289
Revenue appears as deferred inflow of resources in the fund financial statements because it is not available	-
Compensated absences accrued in the government-wide financial statements but not due and payable at fiscal year end	(123,080)
	731,819
Net position per Statement of Net Position	\$ 731,819

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

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**Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2017**

	<u>General Fund</u>
Revenues:	
Charges for audit services	\$ 527,241
Miscellaneous revenue	1,699
Total revenues	<u>528,940</u>
Expenditures:	
General government:	
Current:	
Personal services & employee benefits	2,835,882
Contractual services	47,852
Other costs	459,978
Capital outlay	<u>-</u>
Total expenditures	<u>3,343,712</u>
Excess (deficiency) of revenues over expenditures	<u>(2,814,772)</u>
Other financing sources (uses):	
State general fund appropriation - Fiscal year 2017 (note 9)	2,690,400
Reversions to state general fund - Fiscal year 2017 (note 7)	<u>(2,381)</u>
Total other financing sources (uses)	<u>2,688,019</u>
Net change in fund balance	(126,753)
Fund balance, beginning	<u>972,363</u>
Fund balance, ending	<u>\$ 845,610</u>
Amounts reported in the Statement of Activities are different because:	
Net change in fund balance	\$ (126,753)
Governmental funds report capital outlays as expenditures; however, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay	-
Depreciation expense	(8,429)
Expenditures are recognized in the governmental funds when paid or due for items normally paid with available financial resources; however, the Statement of Activities is presented on the accrual basis and expenses and liabilities are reported when incurred, regardless of when financial resources are available or expenditures are paid or due. This adjustment combines the net change of the following balances:	
Compensated absences expense	<u>(10,398)</u>
Change in net position of governmental activities	<u>\$ (145,580)</u>

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

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Exhibit E

All General Fund Accounts
Statement of Revenues and Expenditures - Budget and Actual
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
General fund appropriation	\$ 2,847,000	\$ 2,690,400	\$ 2,690,400	\$ -
Charges for audit services	450,000	450,000	527,241	77,241
Miscellaneous revenue	-	-	1,699	1,699
Total revenues	<u>3,297,000</u>	<u>3,140,400</u>	<u>3,219,340</u>	<u>78,940</u>
Fund balance budgeted:				
Fund 11200 fund balance	<u>362,700</u>	<u>512,700</u>	<u>512,700</u>	<u>-</u>
Total budgeted fund balance	<u>362,700</u>	<u>512,700</u>	<u>512,700</u>	<u>-</u>
Total budgeted revenue and fund balance	<u>\$ 3,659,700</u>	<u>\$ 3,653,100</u>	<u>\$ 3,732,040</u>	<u>\$ 78,940</u>
Expenditures and other uses:				
General government:				
Personal services & employee benefits	\$ 2,951,100	\$ 2,951,100	\$ 2,835,882	\$ 115,218
Contractual services	74,100	193,533	47,852	145,681
Other	<u>634,500</u>	<u>508,467</u>	<u>459,978</u>	<u>48,489</u>
Total expenditures and other uses	<u>\$ 3,659,700</u>	<u>\$ 3,653,100</u>	<u>\$ 3,343,712</u>	<u>\$ 309,388</u>

The accompanying notes are an integral part of the financial statements

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Notes to Financial Statements
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1. Summary of Significant Accounting Policies

The financial statements of the Office of the State Auditor (Office) have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. 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 may 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 Audit Act requires the State Auditor to conduct financial and compliance audits of agencies in accordance with governmental auditing, accounting and financial reporting standards, and local, state and federal laws, rules and regulations. The Audit Act further establishes a tiered system of financial reporting for local public bodies in which the amount of a local public body's annual revenue determines whether the local public body is subject to a full audit, an agreed-upon procedures engagement or self-certification reporting. The Audit Act also gives the State Auditor the authority to cause the financial affairs and transactions of an agency to be audited in whole or in part, in addition to the annual audit.

The Office is a department of the primary government, the State of New Mexico. These financial statements present the financial position and results of operations 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

In the **government-wide financial statements**, the statement of net position and the statement of activities, report information on all of the non-fiduciary activities of an

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agency. The Office does not have any fiduciary activities. When applicable, the effect of interfund activity between the two SHARE accounts that make up the general fund (administrative account fund 11100 and independent public accounting fund 11200) is removed from the statement of net position 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. 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, the general fund, which is presented as a major fund. The general fund is the Office operating fund. It includes all the financial transactions conducted to fulfill the general government function of fulfilling the responsibilities set forth in the Audit Act. It accounts for all financial resources of the Office.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. In exchange transactions, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. In non-exchange transactions, revenues and expenses are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. 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. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current

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period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Office considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Only the portion of current compensated absences related to payments due to retired or terminated employees as of June 30, 2017, but not paid until after the end of the fiscal year, is included in the fund financial statements.

D. 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). Subsection C of Section 9 of the General Appropriation Act of 2016 (GAA), allows all agencies to request category transfers among personal services and employee benefits, contractual services and other. The Office also has specific budget adjustment authority in Subsection E, Paragraph 14 of Section 9 of the GAA. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.
7. According to subsection K of Section 3 of the General Appropriation Act of 2016 "for the purpose of administering the General Appropriation Act of 2016, the state

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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.” Pursuant to Section 2.2.2.12(A)(3) NMAC, the only exception would be an amount payable at June 30, 2017, 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 29, 2017, creating a negative fund balance. Such 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, 2017.

8. 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 payable at June 30, 2017 that were not paid within the required time period.

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

E. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. Investments

Office investments are deposited in the New Mexico State Treasurer’s General Fund Investment Pool (GFIP).

2. Receivables and payables between SHARE accounts

When applicable, amounts “due to/from other general fund accounts” between the two SHARE accounts 11100 and 11200, are eliminated 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”

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generally reflect reversions for unexpended unencumbered appropriations that must be paid to the State General Fund.

3. Capital assets

Capital assets of the Office include furniture and fixtures, information technology equipment (computers and peripherals, all equipment related to electronic communications), and software. The Office does not own any land or buildings. 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

4. Reversions

Fund 11200 is non-reverting per Section 12-6-13 B, NMSA 1978. 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 29, 2017, in accordance with Section 6-5-10, NMSA 1978. The reversion amount for the current fiscal year is shown as an “Other financing use” in the Statement of Revenues, Expenditures, and Changes in Fund Balances, and as a reduction of the State General Fund appropriation in the Statement of Activities.

Pursuant to the ADDENDA TO ACCOUNTING POLICY STATEMENT FOUR – CUSTODIAL FUNDS issued by the State Controller on July 14, 2017, the reversion to the State General Fund was treated as a cash transaction as of June 30th, rather than recording the amount as a liability which was the practice in prior years. The reversion amount was settled using the state’s adjustment period on September 26, 2017.

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5. *Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Office did not have any items that qualified for reporting in this category as of June 30, 2017.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. When applicable, the Office reports audit fee revenues as deferred inflows of resources when they are not collected within the 60 day period of availability after the end of the fiscal year.

6. *Net position classifications and flow assumption*

The following classifications are used in the government-wide Statement of Net Position: Net investment in capital assets; Restricted net position; and Unrestricted net position. Net investment in capital assets is the portion of net position that is associated with capital assets less outstanding capital asset-related debt and accumulated depreciation. Restricted net position is used when constraints are placed on net position which are imposed by law through constitutional provisions or enabling legislation. Unrestricted net position reflects net position not restricted for any project or other purpose.

The Office does not have any “restricted” net position because the state legislature could potentially “re-appropriate” the SHARE account 11200 fund balance that is committed by Section 12-6-13 NMSA 1978, for payments for salaries and expenses of the Office . Therefore, the Office net position flow assumption is that unrestricted net position is always being used to pay Office expenses.

7. *Fund balance flow assumptions*

The Office has no fund balance in SHARE account 11100 except for the \$100 of unassigned fund balance related to the Office petty cash fund. In SHARE account 11200, the Office has: 1) committed fund balance related the next fiscal year’s budget; and 2) assigned fund balance that the Office does not have the budget authority to expend until future periods, when and if the Legislature includes

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some of those assigned funds in an appropriation. When the fiscal year begins for which SHARE account 11200 cash balance has been appropriated, then the Office is authorized to expend those funds. However, it is generally Office policy to expend the funds in the following order: (1) first, the general fund appropriation deposited in the SHARE account 11100, (2) then the funds that the Office earned as audit fees in the current year; and (3) lastly, the SHARE account 11200 cash balance funds budgeted for the current year.

8. *Fund balance policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Legislature and the Governor are the highest level of decision-making authority for the Office that can, by the annual adoption of the General Appropriations Act statute, commit fund balance. Once adopted, the limitation imposed by the statute remains in place until a similar action is taken (the adoption of the HB2 in the following year) to remove or revise the limitation.

Pursuant to Section 12-6-13 NMSA 1978, the Office intends to use the amounts presented as assigned fund balance in future years for audit expenditures. However, recent history has demonstrated that at a future date, the Legislature and Governor could decide to appropriate the remaining fund balance in SHARE account 11200 for some purpose other than audit expenditures. Therefore, the fund balance amount in SHARE account 11200 that has not been formally appropriated for use in the next fiscal year is presented as assigned fund balance.

F. Revenues and expenditures/expenses

1. *Program revenues*

Amounts reported as charges for audit services include: (1) charges to Office audit clients for financial audit services; (2) charges to Office clients for special audit services in response to fraud issues; and (3) charges to local public body clients for agreed-upon procedures engagements performed. The annual general fund appropriation is not program revenue; it is general revenue.

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2. *Compensated absences*

The liability for the types of compensated absences listed below includes the applicable employer match for the Federal Insurance Contributions Act (FICA) and Medicare payroll taxes. The liability for such leave is reported as incurred in the government-wide statements. 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. A liability for these compensated absences is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements as of the end of the fiscal year.

Vacation Leave - Employees accumulate annual leave at a rate based on starting date and length of continuous service. A maximum of 240 hours of annual leave may be carried forward each year after the pay period beginning in December and ending in January. When employees terminate their employment with the Office, they receive compensation at their current hourly rate for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours.

Compensatory Time - FLSA non-exempt employees are compensated at one and one-half times their regular rate of pay in cash or comp time for all preapproved overtime worked. FLSA non-exempt employees are paid for all accrued compensatory time upon separation from the Office. FLSA exempt employees are eligible for hour-for-hour comp-time, with advance approval from the State Auditor. FLSA exempt employees shall not accumulate compensatory time off in excess of 100 hours. Compensatory time must be taken before annual leave is used. Upon separation or transfer from the Office, FLSA exempt employees may use accumulated compensatory time, with the approval of the State Auditor, or it will be forfeited. Therefore, the June 30, 2017 compensatory time balance is for only FLSA non-exempt employees.

Sick Leave - In general, employees accrue sick leave at the rate of 3.69 hours per pay period. State agencies are allowed to pay fifty percent of each employee's hourly rate for accumulated sick leave over 600 hours, up to 120 hours. Payment may be made 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.

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2. Investment in State General Fund Investment Pool

Office investments in the State General Fund Investment Pool (SGFIP) at June 30, 2017 were:

Name of Account	SHARE Fund Name	SHARE Fund #	Balance Per Books
Investment in State General Fund Investment Pool	State Auditor Administration	11100	\$ 133,453
Investment in State General Fund Investment Pool	State Auditor IPA- Audits	11200	<u>840,065</u>
Subtotal of Investments			973,518
Petty Cash			<u>100</u>
Total Investments and Petty Cash			<u>\$ 973,618</u>

Section 8-6-3 NMSA 1978 NMSA, requires that all money of the state except when otherwise specially provided, be kept by the State Treasurer. Therefore, all Office cash is maintained on deposit with the State Treasurer in the State General Fund Investment Pool (GFIP), except the \$100 petty cash fund that is administered by the Office budget and finance director. The State Treasurer, with the advice and consent of the state board of finance, may invest money held in demand deposits and not immediately needed for operations, in securities in accordance with Sections 6-10-10 I through O, NMSA 1978 as amended.

For additional disclosure information regarding the investment in the State Treasurer’s GFIP, the reader should see the separate audit report for the State Treasurer’s Office for the fiscal year ended June 30, 2017, review the State Treasurer’s Investment Policy at [STO Investment Policy](#) 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. Receivables

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

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obligation or liability be extinguished except by the payment thereof into the proper treasury, or by proper proceeding in court.” When applicable, 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 accounts 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. As of June 30, 2017, the Office had no outstanding receivable amounts.

4. Changes in Capital Assets

Summaries of changes in capital assets and related depreciation follow:

Historical Cost	Balance 6/30/16	Additions	Deletions	Balance 6/30/17
Furniture and Fixtures	\$ 13,268	\$ -	\$ -	\$ 13,268
Info. Technology Equipment	70,624	-	-	70,624
Software	25,876	-	-	25,876
Totals	\$ 109,768	\$ -	\$ -	\$ 109,768

Related Depreciation	Balance 6/30/16	Additions	Deletions	Balance 6/30/17
Furniture and Fixtures	\$ 11,102	\$ 707	\$ -	\$ 11,809
Info. Technology Equipment	55,072	7,722	-	62,794
Software	25,876	-	-	25,876
Totals	\$ 92,050	\$ 8,429	\$ -	\$ 100,479

Assets, net of Depreciation	Balance 6/30/16	Additions	Deletions	Balance 6/30/17
Furniture and Fixtures	\$ 2,166	\$ (707)	\$ -	\$ 1,459
Info Technology Equipment	15,552	(7,722)	-	7,830
Software	-	-	-	-
Totals	\$ 17,718	\$ (8,429)	\$ -	\$ 9,289

The depreciation expense for the year ended June 30, 2017, is \$8,429.

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5. Changes in Compensated Absences

A summary of changes in the compensated absences liability follows:

	Balance 6/30/16	Increase	(Decrease)	Balance 6/30/17	Amount Due in 1 Year
Annual leave	\$ 112,158	\$131,759	\$(121,052)	\$122,865	\$122,865
Sick leave	349	169	(349)	169	169
Comp-time	175	598	(727)	46	46
Total compensated absences	<u>\$ 112,682</u>	<u>\$132,526</u>	<u>\$(122,128)</u>	<u>\$123,080</u>	<u>\$123,080</u>

Compensated absences are typically paid out of the SHARE fund to which that employee's payroll expense is assigned at the time of payment.

6. Operating Leases

The Office had the following eight operating leases during the fiscal year ended June 30, 2017, with the related total expenditures:

- one Pitney Bowes postage meter, \$516;
- one Konica Minolta photocopier, \$4,322;
- four leased vehicles, \$20,105;
- one Santa Fe office building, \$206,000 and
- one Albuquerque office building, \$8,877.

The small postage meter was originally leased in FY10, for four years. In an effort to reduce costs, the Office signed a new lease for a Konica Minolta copier for the Santa Fe office that began in July 2017. The copier lease is for four years. The Office started FY17 making lease payments, for four vehicles that are leased from the New Mexico General Services Department (GSD): a Ford Explorer; Dodge Caravan; Nissan Altima; and Ford Fusion. Due to GSD entering into a new vehicle leasing contract, the Office was required to exchange three vehicles: the Dodge Caravan (exchanged January 2017), Nissan Altima (exchanged May 2017), and Ford Fusion (exchanged May 2017), were exchanged for current year models Dodge Caravan, and two Nissan Altimas. 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. In December 2016, the lease was amended again, reducing rent payments over the term of the lease by almost \$41,000 and extending the term of the

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lease an additional two years to terminate on August 14, 2021. In September of 2015, the Office entered into a lease agreement for office space in Albuquerque at 400 Gold Avenue SW. The Office began occupying that space in September 2015. The term of the lease is from September 1, 2015, to August 31, 2019.

All of the Office leases include a standard cancellation clause in the event 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 since the leases are considered cancellable.

7. Reversions to State General Fund

The following is a summary of the determination of the amount reverted to the State General Fund at June 30, 2017, from the General Administration Account (Fund 11100) to DFA SHARE Fund 85300:

Petty cash and investment in State General Fund Investment Pool, June 30, 2017 (Administration Account, Fund 11100)	\$ 133,553
Less: Accounts payable, June 30, 2017	(37,318)
Accrued salaries and related liabilities, June 30, 2017	(93,754)
Fund balance for petty cash, June 30, 2017	(100)
Reverted to State General Fund, June 30, 2017	\$ 2,381

The sources of the amounts reverted to the State General Fund by budget fiscal year and appropriation are:

FY17 unencumbered unexpended general fund appropriation	\$ 682
Miscellaneous revenue-reimbursement of prior year expense	1,000
Recovery of expenses for IPRA requests	699
Total reversions	\$ 2,381

8. Due to and Due From Other State Agencies

The Office had no Due to Other State Agencies at June 30, 2017.

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The Office had the following Due from Other State Agencies at June 30, 2017:

Agency	SHARE Fund (From/To)	Purpose	Amount
Office of the Superintendent of Insurance	11690/11200	Special Audit of Premium Tax Collection	\$ 22,191
Total Due from Other State Agencies			\$ 22,191

9. Transfers

Pursuant to the General Appropriation Act of 2016, the Office received twelve monthly operating transfers from the Department of Finance and Administration (DFA) Appropriations account totaling the amount shown below.

Agency	SHARE Fund (From/To)	Purpose	Amount
State General Fund - Department of Finance and Administration	85300/11100	Appropriation allotments	\$ 2,690,400
Total Transfers			\$ 2,690,400

The Office made the payment shown below to the State General Fund (85300) during FY17, for the reversion related to the FY16 appropriation.

Date	SHARE fund from/to	Amount	Purpose of the Payments
9/9/2016	11100/85300	\$3,802	Reversions to the State General Fund

10. Pension Plan – Public Employees Retirement Association

Plan Description. 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

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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, 33 Plaza La Prensa, Santa Fe, New Mexico 87507. The report is also available on PERA's website at <http://www.nmpera.org>.

The Office contributions to PERA for the years ended June 30, 2017, 2016, and 2015 were \$351,107, \$354,221, and \$318,131 respectively, which equal the required contributions for each year.

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

Plan Description. The Office contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment 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 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

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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 employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2017, the state required each participating employer to contribute 2.5% of each participating employees annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Office contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015 were \$41,331, \$41,483, and \$37,645 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.

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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 created which allow RMD to insure, self-insure or use a combination of both. The Office's risk management expenditures paid to RMD are accounted for in SHARE account 11100. Any claims are processed through RMD. As of June 30, 2017, there is one pending legal proceeding to which the Office is a party: a claim brought by an employee who resigned from the Office, related to leave allowance. RMD has engaged legal counsel to defend the lawsuit, which has been filed with the Court but not served on the Office.

13. Financial Reporting and Disclosure for Multiple-Employer Cost Sharing Pensions Plans by Employers (GASB 68)

Compliant with the requirements of Government Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions*, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2016.

The Office of the State Auditor, as part of the primary government of the State of New Mexico, is a contributing employer to the cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, NM 87501.

14. Joint Powers Agreements and Memorandums of Understanding

The OSA entered into no Joint Powers Agreements in FY17. All Memorandums of Understanding (MOU) entered into by the OSA are with governmental agencies for financial audits for fiscal year 2016 conducted by the OSA. None of the MOU's creates a joint venture or ongoing financial interest in another organization. Revenues generated by conducting these audits are deposited into SHARE fund 11200 (Audit Fund) using account 424102 (Audit Revenue).

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**Combining Balance Sheet - General Fund Accounts
June 30, 2017**

	SHARE FUND 11100 Adm. Account	SHARE FUND 11200 IPA Account	TOTAL GENERAL FUND
ASSETS			
Petty Cash	\$ 100	\$ -	\$ 100
Investment in State General Fund Investment Pool	131,072	840,065	971,137
Accounts receivable	-	-	-
Due from other state agencies	-	22,191	22,191
Total assets	<u>\$ 131,172</u>	<u>\$ 862,256</u>	<u>\$ 993,428</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 37,318	\$ 1,912	\$ 39,230
Payroll benefits payable	31,709	4,484	36,193
Payroll taxes payable	18,930	2,964	21,894
Accrued salaries	43,115	7,386	50,501
Due to other state agencies	-	-	-
Due to state general fund	-	-	-
Total liabilities	<u>131,072</u>	<u>16,746</u>	<u>147,818</u>
Deferred inflows of resources:			
Unavailable revenue	-	-	-
Fund balances:			
Committed to:			
Fiscal year 2018 budget	-	755,000	755,000
Assigned to:			
Audit expenses	-	90,510	90,510
Unassigned:	<u>100</u>	<u>-</u>	<u>100</u>
Total fund balances	<u>100</u>	<u>845,510</u>	<u>845,610</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 131,172</u>	<u>\$ 862,256</u>	<u>\$ 993,428</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, 2017**

	SHARE FUND 11100 Adm. Account	SHARE FUND 11200 IPA Account	TOTAL GENERAL FUND
Revenues:			
Charges for audit services	\$ -	\$ 527,241	\$ 527,241
Miscellaneous revenue	1,699	-	1,699
Total revenues	<u>1,699</u>	<u>527,241</u>	<u>528,940</u>
Expenditures:			
General government:			
Current:			
Personal services & employee benefits	2,298,399	537,483	2,835,882
Contractual services	42,852	5,000	47,852
Other costs	348,467	111,511	459,978
Capital outlay	-	-	-
Total expenditures	<u>2,689,718</u>	<u>653,994</u>	<u>3,343,712</u>
Excess (deficiency) of revenues over expenditures	<u>(2,688,019)</u>	<u>(126,753)</u>	<u>(2,814,772)</u>
Other financing sources (uses):			
State General Fund Appropriation - Fiscal year 2017	2,690,400	-	2,690,400
Compensation Appropriation	-	-	-
Reversion to State General Fund - Fiscal year 2017	(2,381)	-	(2,381)
Total other financing sources (uses)	<u>2,688,019</u>	<u>-</u>	<u>2,688,019</u>
Net change in fund balance	-	(126,753)	(126,753)
Fund balance, beginning	<u>100</u>	<u>972,263</u>	<u>972,363</u>
Fund balance, ending	<u>\$ 100</u>	<u>\$ 845,510</u>	<u>\$ 845,610</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, 2017

	<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	\$ 2,847,000	\$ 2,690,400	\$ 2,690,400	\$ -
Miscellaneous revenue	-	-	1,699	1,699
Total budgeted revenues	<u>\$ 2,847,000</u>	<u>\$ 2,690,400</u>	<u>\$ 2,692,099</u>	<u>\$ 1,699</u>
Expenditures and other uses:				
General government:				
Personal services & employee benefits	\$ 2,298,400	\$ 2,298,400	\$ 2,298,399	\$ 1
Contractual services	74,100	43,533	42,852	681
Other	474,500	348,467	348,467	-
Total expenditures and other uses	<u>\$ 2,847,000</u>	<u>\$ 2,690,400</u>	<u>\$ 2,689,718</u>	<u>\$ 682</u>

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR

Statement 4

General Fund - IPA Account (Fund 11200)
Statement of Revenues and Expenditures - Budget and Actual
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for audit services	\$ 450,000	\$ 450,000	\$ 527,241	\$ 77,241
Miscellaneous revenue	-	-	-	-
Total revenues	450,000	450,000	527,241	77,241
Prior-year funds re-budgeted	362,700	512,700	512,700	-
Total budgeted revenues and fund balance	<u>\$ 812,700</u>	<u>\$ 962,700</u>	<u>\$ 1,039,941</u>	<u>\$ 77,241</u>
Expenditures:				
General government:				
Personal services & employee benefits	\$ 652,700	\$ 652,700	\$ 537,483	\$ 115,217
Contractual services	-	150,000	5,000	145,000
Other	160,000	160,000	111,511	48,489
Total expenditures	<u>\$ 812,700</u>	<u>\$ 962,700</u>	<u>\$ 653,994</u>	<u>\$ 308,706</u>

The accompanying notes are an integral part of the financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Schedule of Performance Measure Results
For the Year Ended June 30, 2017

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 2017 are shown below. Fiscal year 2018 target measures are reflected in the column at the far right.

Performance Measure	FY17 Target Measures	FY17 Results	FY18 Target Measures
Output: Total audit fees generated	\$450,000	\$527,241	\$450,000
Explanatory: Percent of audits completed by regulatory due date	81%	84%	*
Output: Number of training sessions performed	17	33	19
Outcome: Percent of statutory reviews of audit reports completed within ten days	90%	93%	90%
Outcome: Percent of agency auditor selection requests processed within five days of receipt	100%	**N/A%	**N/A%
Output: Number of working paper reviews of independent public accountants	45	45	45

*Since this performance measure is explanatory only and the Office has no control over its results, the measure has no target for FY18.

**With the implementation of OSA Connect (an online approval process of contracts), this performance measure is no longer informative. There is no longer an IPA recommendation form that is separately processed; entities report their independent public accountant when submitting contract information in the new system. Beginning in FY18, this performance measure was discontinued.

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*

The Honorable Timothy M. Keller
New Mexico State Auditor
Office of the State Auditor
Santa Fe, New Mexico

We have audited, 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, the financial statements of the governmental activities, the major fund, and the budgetary comparison of the general fund of the State of New Mexico, Office of the State Auditor (Office), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated October 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses.

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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Assurance Tax Accounting P.C.

Assurance Tax Accounting P.C

Albuquerque, New Mexico

October 17, 2017

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

**Schedule of Findings and Responses
June 30, 2017**

	<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, 2017**

Financial Statement Preparation

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

EXIT CONFERENCE

The financial statements and the auditors' reports were discussed at an exit conference held on October 17, 2017 with the following in attendance:

Office of the State Auditor

The Honorable Timothy Keller, New Mexico State Auditor (by telephone)
Sanjay Bhakta CPA, CGFM, CFE, CGMA, Deputy State Auditor and Chief Financial Officer
Sunalei Stewart, JD, MA, CFE, Chief of Staff
Antonio Medina, Budget and Finance Director

Audit Firm

Johnny Mangu MBA, CPA, CGFM, CGMA
James Hartogenesis CPA, CGFM