

OFFICE OF THE STATE AUDITOR
Brian S. Colón, Esq.



State of New Mexico
Office of the State Auditor

Financial Statements
Year ended June 30, 2019
(with Independent Auditor's Report Thereon)

State of New Mexico
Office of the State Auditor

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**State of New Mexico
Office of the State Auditor**

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

**Official Roster
June 30, 2019**

<u>Name</u>	<u>Title</u>
Brian S. Colón, Esq.	State Auditor
Natalie Cordova	Deputy State Auditor
Christopher Catechis	Chief of Staff
Jesse Gallegos	Deputy Chief of Staff
Joseph Holloway	General Counsel and Chief Government Accountability Officer
Stephanie Telles	Government Accountability Office Director
Elise Mignardot	Compliance and Quality Control Director
Lynette Kennard	Financial Audit Director
Shawn Beck	Special Investigation Director
Laura Montoya	Budget and Finance Director

Independent Auditor's Report

Honorable Brian S. Colón, Esq.
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 (the "Office"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements 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 an opinion 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 financial position of the governmental activities and the major fund of the Office as of June 30, 2019, and the respective changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, 2019, and the changes in its financial position thereof for the year 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 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 an opinion on the basic financial statements and the budgetary comparison that collectively comprise the Office's basic financial statements. The supplementary information as listed 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 21, 2019, 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.

Loftis Group ^{uc}

Albuquerque, New Mexico
October 21, 2019

Management's Discussion and Analysis

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Management's Discussion and Analysis
For the Year Ended June 30, 2019

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, 2019.

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.

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 and individual fund financial 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.

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Management's Discussion and Analysis
For the Year Ended June 30, 2019

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 and is opined on by the auditors, as required by Section 2.2.2.12(A)(2) NMAC.

The Budget Comparison Statement

The Office’s 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. The Office has only one program, or PCode, for budget purposes, which is assigned as PCode P628. 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.

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Management's Discussion and Analysis
For the Year Ended June 30, 2019

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 FY19 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.

Statement of Net Position			
June 30,			
	2019	2018	Change
Assets			
Investment in State General			
Fund Investment Pool	\$ 1,189,737	\$ 989,162	\$ 200,575
Receivables	40,440	-	40,440
Capital assets, net	118,682	11,304	107,378
Total assets	\$ 1,348,859	\$ 1,000,466	\$ 348,393
Liabilities			
Accounts payable	\$ 120,049	\$ 19,980	\$ 100,069
Accrued salaries and employee benefits	90,535	103,055	(12,520)
Compensated absences	84,581	82,789	1,792
Total liabilities	295,165	205,824	89,341
Net Position			
Net investment in capital assets	118,682	11,304	107,378
Restricted	935,012	783,338	151,674
Total net position	\$ 1,053,694	\$ 794,642	\$ 259,052

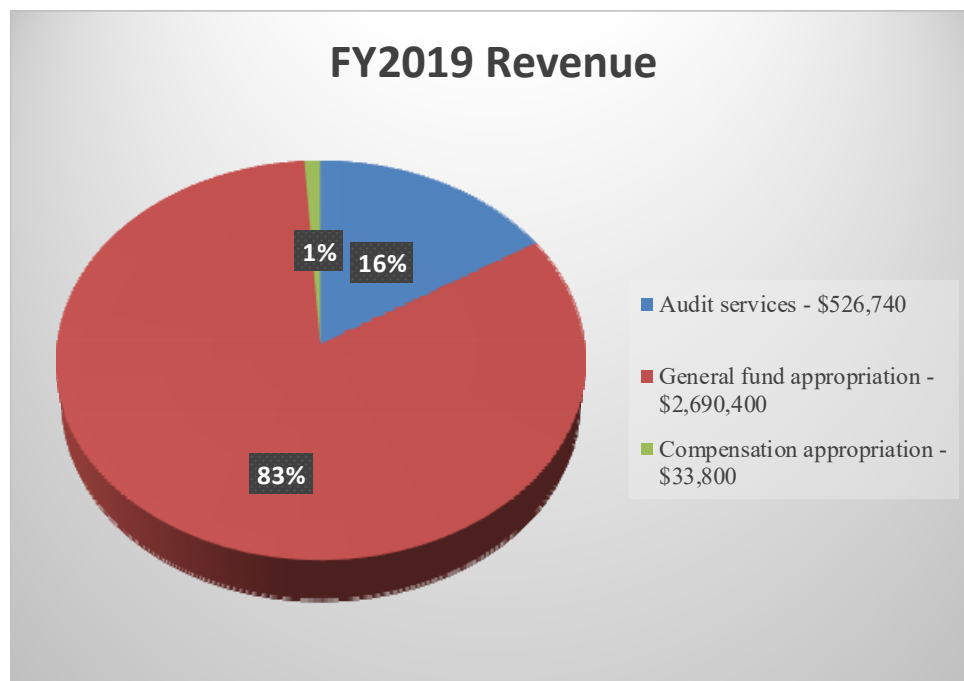
STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Management's Discussion and Analysis
For the Year Ended June 30, 2019

The restricted net position amount of \$935,002 is available but restricted for use to meet the Office's ongoing obligations to citizens and creditors.

Changes in Net Position
For the Years Ended June 30,

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Program revenues			
Charges for audit services	\$ 526,740	\$ 454,059	\$ 72,681
Miscellaneous revenue	<u>-</u>	<u>311</u>	<u>(311)</u>
Total program revenues	526,740	454,370	72,370
General revenues			
General fund appropriation	2,690,400	2,689,644	756
General fund compensation appropriation	<u>33,800</u>	<u>-</u>	<u>33,800</u>
Total program and general revenues	<u>\$ 3,250,940</u>	<u>\$ 3,144,014</u>	<u>\$ 106,926</u>

The Office's program and general revenues for the fiscal year ended June 30, 2019, are depicted in the chart below:

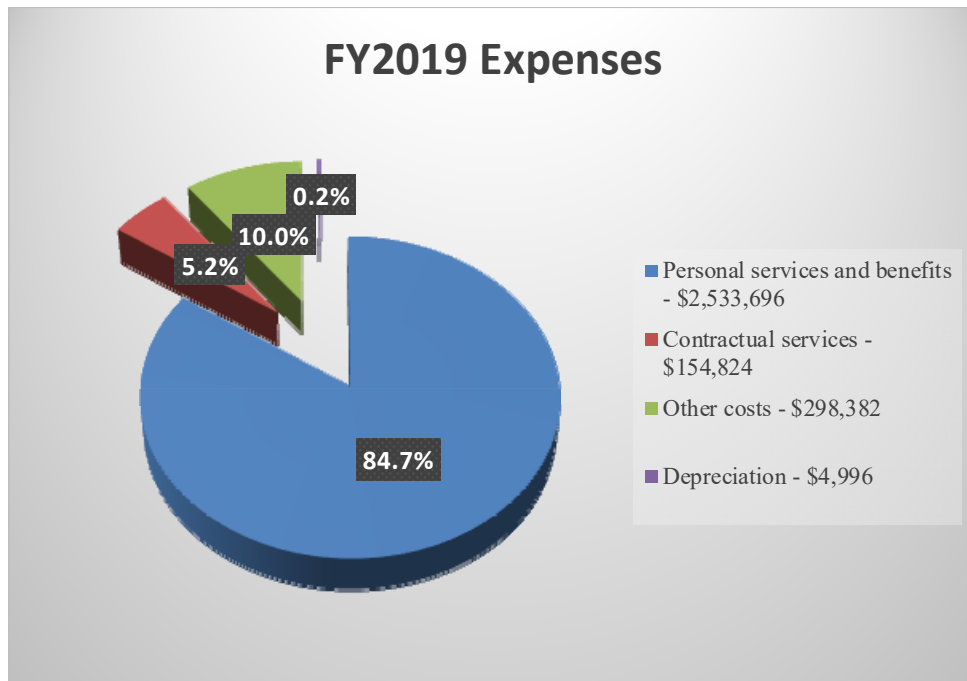


STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Management’s Discussion and Analysis
For the Year Ended June 30, 2019

Changes in Net Position—continued
For the Years Ended June 30,

	2019	2018	Change
Program expenses			
Personal services and employee benefits	\$ 2,533,686	\$ 2,652,693	\$ (119,007)
Contractual services	154,824	51,355	103,469
Other costs	298,382	371,599	(73,217)
Depreciation	4,996	5,544	(548)
Total program expenses	<u>2,991,888</u>	<u>3,081,191</u>	<u>(89,303)</u>
Change in net position	259,052	62,823	196,229
Net position, beginning of year	<u>794,642</u>	<u>731,819</u>	<u>62,823</u>
Net position, end of year	<u>\$ 1,053,694</u>	<u>\$ 794,642</u>	<u>\$ 259,052</u>

Office of the State Auditor expenses by category for the fiscal year ended June 30, 2019, appear in the chart that follows:



STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Management’s Discussion and Analysis
For the Year Ended June 30, 2019

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. 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, 2019, and therefore no negative fund balance. SHARE fund 11200 (IPA Fund Account) is non-reverting. The restricted fund balance in fund 11200 is restricted by enabling legislation. A portion of the restricted fund balance has already been appropriated for expenditure in a subsequent fiscal year, 2020, by legislation approved by the Legislature and the Governor.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Fund balance			
Restricted for subsequent year	\$ 761,400	\$ 755,000	\$ 755,000
Restricted for future years audit expenses	258,193	111,127	90,510
Unassigned	-	-	100
Total fund balance	<u>\$ 1,019,593</u>	<u>\$ 866,127</u>	<u>\$ 845,610</u>

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

- Increased from FY17 to FY18 by \$20,617; and
- Increased from FY18 to FY19 by \$153,466.

The \$20,617 increase in assigned fund balance in FY18 was the result of an increase in revenue over expenditures of \$20,617.

The \$153,466 increase in assigned fund balance in FY19 was the result of an increase in revenue over expenditures of \$153,466. The primary reason for the increase in revenue is due to the one-time appropriation for services in relation to guardianship and conservatorship examination. This was a one-time source of revenue as the legislature has permanently funded positions in FY20 and the Office will no longer bill for services related to guardianship and conservatorship examinations in FY20.

During the same period of time, audit fee revenue on the modified accrual basis increased by \$72,681 between FY18 and FY19 and decreased \$73,182 between FY17 and FY18.

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Management's Discussion and Analysis
For the Year Ended June 30, 2019

Audit Fee Revenue (modified accrual basis)
For the Year-ended June 30,

	2019	2018	2017
Audit fee revenue	\$ 526,740	\$ 454,059	\$ 527,241

In FY19 the Office earned \$526,740 of audit fees on the modified accrual basis, as shown below. This is an increase of \$72,681 under the previous year revenue collection.

Agency	Audit Type	Amount
NM Higher Education Department	Annual financial and compliance audit	\$ 88,000
NM Environment Department	Annual financial and compliance audit	110,000
NM Commission for the Blind	Annual financial and compliance audit	35,250
NM School for the Deaf	Annual financial and compliance audit	36,000
Commission on the Status of Women	Annual financial and compliance audit	2,500
NM Taxation and Revenue Department	Joint venture	37,000
CNM Community College	Joint venture	20,000
Village of Tijeras	Special Audit	10,000
Regional Coalition of LANL Communities	Special Audit	10,000
Administrative Office of the Courts	Examination/Review of guardianships	177,990
	Total 2019 audit revenue	\$ 526,740

In FY18 the Office earned \$454,059 of audit fees on the modified accrual basis, as shown below. This is a decrease of \$73,182 over the prior year revenue collection.

Agency	Audit Type	Amount
NM Higher Education Department	Annual financial and compliance audit	\$ 80,000
University of New Mexico	Special audit	90,000
Office of the Superintendant of Insurance	Special audit	67,809
University of New Mexico	Joint venture	15,000
NM Taxation and Revenue Department	Joint venture	38,000
Office of the Superintendant of Insurance	Annual financial and compliance audit	85,000
NM Commission for the Blind	Annual financial and compliance audit	33,250
NM School for the Deaf	Annual financial and compliance audit	36,000
NM General Services Department	Special audit	6,000
Dora Consolidated Schools	Special audit	1,000
City of Jal	Special audit	2,000
	Total 2018 audit revenue	\$ 454,059

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Management’s Discussion and Analysis
For the Year Ended June 30, 2019

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.

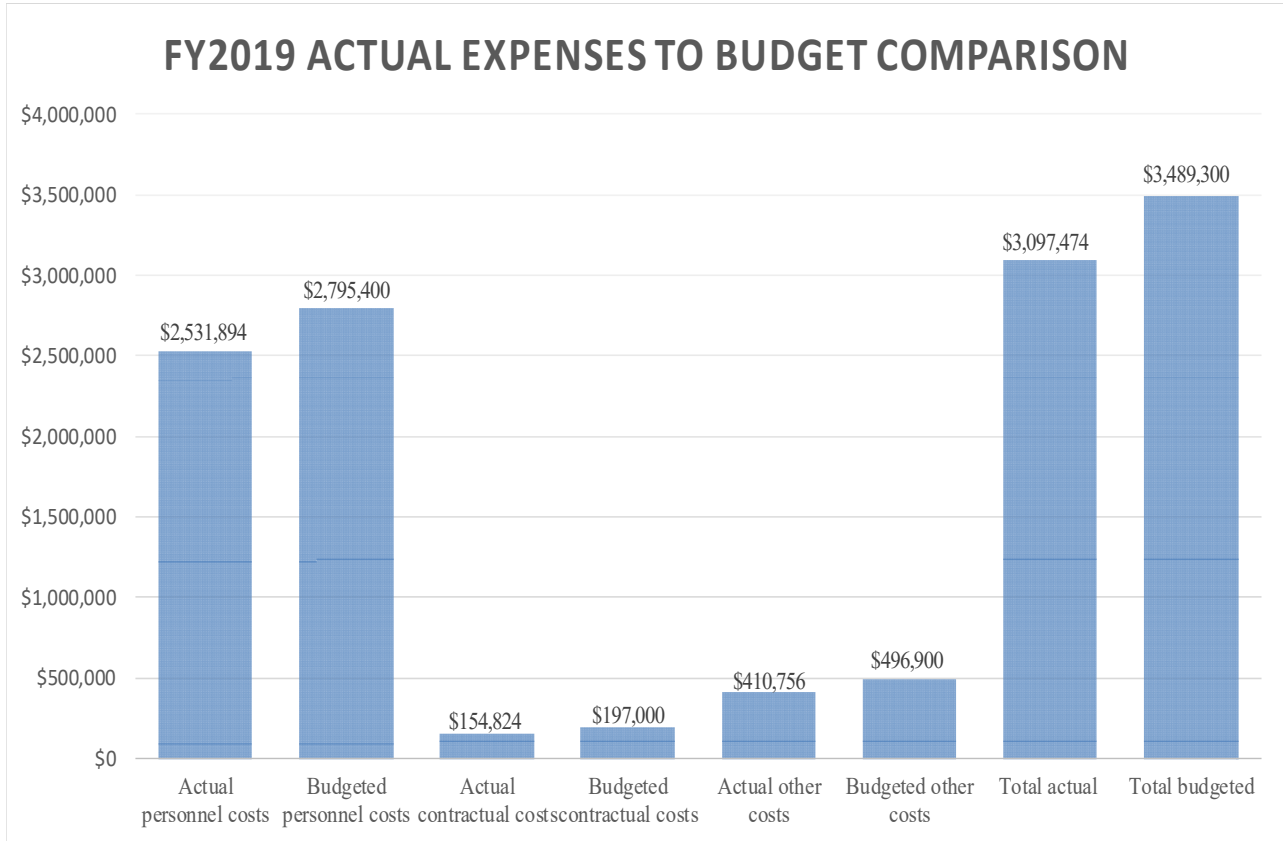
Agency	Audit Type	Amount
Tierra Amarilla Land Grant	Agreed-upon procedures	\$ 1,200
NM Mortgage Finance Authority	Joint venture	108,000
Town of Estancia	Special audit	1,250
Office of the Superintendent of Insurance	Annual financial and compliance audit	85,000
NM CAP Entity	Annual financial and compliance 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 2017 audit revenue		<u>\$ 527,241</u>

General Fund Budgetary Highlights

The New Mexico Legislature’s General Appropriation Act of 2019 (GAA) adopted a total FY19 general fund appropriation for the Office of \$2,724,200. In addition to the general fund appropriation, the authorized budget required the Office to use \$765,100 in audit funds. 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 chart on the following page also reflects the actual-to-budget comparisons for the fiscal year.

The New Mexico Legislature’s General Appropriation Act of 2020 (GAA) adopted a total FY20 general fund appropriation for the Office of \$3,206,300. The FY20 GAA included new funding for expansion positions (3 full-time equivalent) for the guardianship and conservatorship examinations.

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Management's Discussion and Analysis
For the Year Ended June 30, 2019



Capital Assets

The Office's net investment in capital assets is \$118,682. There is no debt related to these capital assets. During FY19, the Office had purchased \$112,374 of capital assets. Depreciation expense for the year was \$4,996. The Office disposed of no capital assets in FY19. As a result of this activity, the investment in capital assets, net of accumulated depreciation changed from \$11,304 at June 30, 2018, to \$118,682 at June 30, 2019, for a net increase of \$107,378.

Compensated Absences Liability

The total compensated absences liability increased in FY19 by \$1,792, from \$82,789 at June 30, 2018, to \$84,581 at June 30, 2019. The slight increase in the liability account balance is due to employee staffing levels remaining relatively consistent with FY18. The Office estimates that all of the \$84,581 balance is a current liability.

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Management's Discussion and Analysis
For the Year Ended June 30, 2019

The Political Environment and Next Year's Budget

Recently, the State of New Mexico has experienced unanticipated increases in General Fund revenues mostly attributed to revenue the State receives from the oil and natural gas industry.

The Office has requested an FY21 appropriation that adequately funds the Office in its effort to fulfill its mission. The Office's request includes 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 Office's historic budget impact for General Fund and Audit Revenues are detailed below.

	FY20 Operating Budget	FY19 Operating Budget	FY18 Operating Budget	FY17 Operating Budget	FY16 Operating Budget	FY15 Operating Budget	FY14 Operating Budget
Personnel							
Services and							
Employee							
Benefits	\$ 3,336,400	\$ 2,995,400	\$ 2,951,100	\$ 2,951,100	\$ 3,071,700	\$ 2,742,500	\$ 2,997,900
Contractual							
Services	47,300	47,000	193,533	74,100	97,200	399,600	75,700
Other	<u>584,100</u>	<u>446,900</u>	<u>508,467</u>	<u>634,500</u>	<u>607,800</u>	<u>666,300</u>	<u>456,300</u>
Total	<u>\$ 3,967,800</u>	<u>\$ 3,489,300</u>	<u>\$ 3,653,100</u>	<u>\$ 3,659,700</u>	<u>\$ 3,776,700</u>	<u>\$ 3,808,400</u>	<u>\$ 3,529,900</u>
Percentage							
Increase or							
(Decrease)	<u>13.7%</u>	<u>-4.5%</u>	<u>-0.2%</u>	<u>-3.1%</u>	<u>-0.8%</u>	<u>7.9%</u>	<u>11.4%</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Management's Discussion and Analysis
For the Year Ended June 30, 2019

Audit Fund Reliance 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 the Office's budget reliance on the Audit Fund and in some instances, decreased General Funds. While the Audit Fund provides an important mechanism to maintain Office operations, the current rate of reliance on the Fund is unsustainable. By appropriating a larger proportion of the Office's budget from the Audit Fund the balance of the Fund has been prone to decline. The requested reduction in use of audit funds for Office operations in FY21 will reduce the selection of Office audit by the need to bring in revenue. This will allow the Office to select audits based on need and risk, as well as allow the Office to dedicate more resources towards outreach and training efforts.

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
505-476-3800

Financial Statements

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Statement of Net Position
June 30, 2019

	Governmental Activities
Assets	
Investment in State General Fund Investment Pool (Note 2)	\$ 1,189,737
Accounts receivable (Note 3)	40,440
Capital assets, net of accumulated depreciation (Note 4)	118,682
Total assets	1,348,859
 Liabilities	
Accounts payable	120,049
Payroll benefits payable	27,362
Payroll taxes payable	18,859
Accrued salaries	44,314
Compensated absences (Note 5)	
Due within one year	84,581
Total liabilities	295,165
 Net Position	
Net investment in capital assets (Note 4)	118,682
Restricted	935,012
Total net position	\$ 1,053,694

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Statement of Activities
For the Year Ended June 30, 2019

	<u>Governmental Activities</u>
Expenses:	
General government	
Personal services and employee benefits	\$ 2,533,686
Contractual services	154,824
Other costs	298,382
Depreciation	<u>4,996</u>
Total program expenses	<u>2,991,888</u>
Program revenues:	
Charges for audit services	<u>526,740</u>
Total program revenues	526,740
Net program expense	<u>(2,465,148)</u>
General revenues:	
State general fund appropriation - fiscal year 2019 (Note 8)	2,690,400
Compensation appropriation (Note 8)	<u>33,800</u>
Total general revenues	<u>2,724,200</u>
Change in net position	259,052
Net position, beginning	<u>794,642</u>
Net position, ending	<u><u>\$ 1,053,694</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Balance Sheet – General Fund
June 30, 2019

Assets

Investment in State General Fund Investment Pool (note 2)	\$ 1,189,737
Due from State Agency (note 3)	<u>40,440</u>
Total assets	<u><u>\$ 1,230,177</u></u>

Liabilities and Fund Balances

Liabilities

Accounts payable	\$ 120,049
Payroll benefits payable	27,362
Payroll taxes payable	18,859
Accrued salaries	<u>44,314</u>
Total liabilities	<u>210,584</u>

Fund balances

Restricted to:

Fiscal year 2020 budget	761,400
Audit expenses	<u>258,193</u>
Total fund balances	<u>1,019,593</u>
Total liabilities and fund balances	<u><u>\$ 1,230,177</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Reconciliation of the General Fund Balance
Sheet to the Statement of Net Position
June 30, 2019

Fund Balance - General Fund \$ 1,019,593

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 118,682

Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds (84,581)

Net Position - Governmental Activities \$ 1,053,694

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Statement of Revenues, Expenditures, and
Changes in Fund Balance – General Fund
For the Year Ended June 30, 2019

Revenues:

Charges for audit services	\$ 526,740
Total revenues	526,740

Expenditures:

General government:	
Current:	
Personal services and employee benefits	2,531,894
Contractual services	154,824
Other costs	410,756
Total expenditures	3,097,474

Excess (deficiency) of revenues over expenditures	(2,570,734)
---	-------------

Other financing sources (uses):

State general fund appropriation - fiscal year 2019 (Note 8)	2,690,400
Compensation appropriation (Note 8)	33,800
Total other financing sources (uses)	2,724,200

Net change in fund balance	153,466
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Fund balance, beginning of year	866,127
Fund balance, end of year	\$ 1,019,593

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance of the
General Fund to the Statement of Activities
For the Year Ended June 30, 2019

Net Change in Fund Balance - General Fund \$ 153,466

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	112,374
Depreciation expense	(4,996)

Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in governmental funds:

Current year increase in compensated absences	(1,792)
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Change in Net Position - Governmental Activities \$ 259,052

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u>
Appropriation Program Code: P628				<u>(Unfavorable)</u>
Revenues:				
General fund appropriation	\$ 2,690,400	\$ 2,690,400	\$ 2,690,400	\$ -
Compensation appropriation	33,800	33,800	33,800	-
Charges for audit services	<u>480,000</u>	<u>480,000</u>	<u>526,740</u>	<u>46,740</u>
Total revenues	<u>3,204,200</u>	<u>3,204,200</u>	<u>3,250,940</u>	<u>46,740</u>
Fund balance budgeted:				
Fund 11200 fund balance	<u>285,100</u>	<u>285,100</u>	<u>-</u>	<u>285,100</u>
Total budgeted fund balance	<u>285,100</u>	<u>285,100</u>	<u>-</u>	<u>285,100</u>
Total budgeted revenue and fund balance	<u>\$ 3,489,300</u>	<u>\$ 3,489,300</u>	<u>\$ 3,250,940</u>	<u>\$ 331,840</u>
Expenditures and other uses:				
General government:				
Personal services and employee benefits	\$ 2,995,400	\$ 2,795,400	\$ 2,531,894	\$ 263,506
Contractual services	47,000	197,000	154,824	42,176
Other	<u>446,900</u>	<u>496,900</u>	<u>410,756</u>	<u>86,144</u>
Total expenditures and other uses	<u>\$ 3,489,300</u>	<u>\$ 3,489,300</u>	<u>3,097,474</u>	<u>\$ 391,826</u>
Excess (deficiency) of revenues over expenditures			<u>\$ 153,466</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR

Notes to the Financial Statements

June 30, 2019

1) Reporting Entity and 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 significant accounting policies of the Office are described below:

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, and 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.

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 agency. The Office does not have any fiduciary activities. When applicable, the effect of intra-entity activity between the two SHARE accounts that make up the general fund (administrative account fund 11100 and audit 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

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Notes to the Financial Statements
June 30, 2019

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's 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.

Measurement Focus, Basis of Accounting, and Financial Statement Preparation

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 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 year. 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, 2019, but not paid until after the end of the fiscal year, is included in the fund financial statements.

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Notes to the Financial Statements
June 30, 2019

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 (DFA) Budget Division 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). The General Appropriation Act (GAA), allows agencies to request category transfers among personal services and employee benefits, contractual services and other. Budget Adjustment Requests (BARs) are reviewed and approved by the DFA Budget Division.
7. According to the General Appropriation Act, for the purpose of administering the General Appropriation Act, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual model of accounting practices issued by the department of finance and administration.
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, 2019, that were not paid within the required time period.

In accordance with the requirements of Section 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.

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Notes to the Financial Statements
June 30, 2019

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 accounts 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” generally reflect reversions for unexpended unencumbered appropriations that must be paid to the State General Fund. There was no such reversion in FY19.

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 the 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:

Assets	Years
Furniture and fixtures	10
Information technology and equipment	5
Software	3

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Notes to the Financial Statements
June 30, 2019

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 unexpended special or capital outlay appropriations, reverts to the State General Fund by September 28, 2019, in accordance with Section 6-5-10, NMSA 1978.

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, 2019

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 Assumptions*

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 has a “restricted” net position because enabling legislation, Section 12-6-13 NMSA 1978, restricts the use of these funds. The Office net position flow assumption is that unrestricted net position, generally general fund appropriations, is used first to pay Office expenses.

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Notes to the Financial Statements
June 30, 2019

7. *Fund Balance Flow Assumptions*

Fund balance in SHARE account 11100 is \$100 at June 30, 2019. In SHARE account 11200, the Office has 1) restricted fund balance related to the next fiscal year's budget and 2) restricted fund balance that the Office does not have the budget authority to expend until future fiscal periods, when and if the Legislature includes some of those assigned funds in an appropriation. When the fiscal year begins for which SHARE account 11200's 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.

8. *Fund Balance Policies*

Fund balance of governmental funds may be reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Restricted fund balance represents amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or enabling legislation.

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 Appropriation Act statute, restrict 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 must use the amounts presented as restricted fund balance in future years for audit expenditures.

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; 3) charges to local public body clients for agreed-upon procedures engagements performed; and 4) charges for services the Office performed related to the guardianship and conservatorship examination. The annual general fund appropriation is not program revenue, it is general revenue.

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR

Notes to the Financial Statements

June 30, 2019

2. *Compensated Absences*

The liability for the types of compensated absences are listed below. The liability for such leave is reported as incurred in the government-wide statements.

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 compensatory 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, however balances are not paid out upon departure. Therefore, the compensatory time balance, if any, is solely for 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, each year. 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. As of June 30, 2019, there is no compensated absence liability related to sick leave.

2) Investment in State General Fund Investment Pool

Office investments in the State General Fund Investment Pool (SGFIP) at June 30, 2019 were as follows:

Name of Account	SHARE Account Name	SHARE Account Number	Balance per Books
	State Auditor		
Investment in State General Fund Investment Pool	Administration	11100	\$ 200,748
Investment in State General Fund Investment Pool	Audit Fund	11200	988,989
Total investments			<u>\$ 1,189,737</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Notes to the Financial Statements
June 30, 2019

Section 8-6-3 NMSA 1978, 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). 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, 2019, review the State Treasurer's 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) Due from State Agencies

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." 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. As of June 30, 2019, the office had receivables of \$40,440 for audit services provided to the New Mexico Administrative office of the Courts.

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Notes to the Financial Statements
June 30, 2019

4) Capital Assets

Summaries of changes in capital assets and related depreciation follow:

	Beginning Balances	Increases	Decreases*	Ending Balances
<i>Governmental activities</i>				
Capital assets being depreciated				
Furniture and fixtures	\$ 13,268	\$ -	\$ (6,197)	\$ 7,071
Information technology equipment	78,183	5,686	-	83,869
Software	25,876	106,688	(8,866)	123,698
Total capital assets being depreciated, at cost	<u>117,327</u>	<u>112,374</u>	<u>(15,063)</u>	<u>214,638</u>
Less accumulated depreciation for				
Furniture and fixtures	12,516	707	(6,197)	7,026
Information technology equipment	67,631	4,289	-	71,920
Software	25,876	-	(8,866)	17,010
Total accumulated depreciation	<u>106,023</u>	<u>4,996</u>	<u>(15,063)</u>	<u>95,956</u>
Capital assets, net	<u>\$ 11,304</u>	<u>\$ 107,378</u>	<u>\$ -</u>	<u>\$ 118,682</u>

*Decreases are related to Audit Rule 2.2.2.10.W(1) OSA did not have any deletions for FY19.

5) Compensated Absences

A summary of changes in the compensated absences liability follows:

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019
Annual leave	<u>\$ 82,789</u>	<u>55,495</u>	<u>(53,703)</u>	<u>\$ 84,581</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.

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Notes to the Financial Statements
June 30, 2019

6) Operating Leases

The Office had the following eight operating leases during the fiscal year ended June 30, 2019, with the related total expenditures:

- One Pitney Bowes postage meter, \$516;
- One Konica Minolta copier, \$4,319;
- Four leased vehicles, \$19,632;
- One Santa Fe office building, \$209,367; and
- One Albuquerque office building, \$9,167.

The postage meter was originally leased in fiscal year 2010, 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 2018. The copier lease is for four years. The Office started making lease payments in fiscal year 2017 for four vehicles that are leased from the New Mexico General Services Department (GSD); a Ford Explorer, 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 and extended through August 14, 2019. In December 2016, the lease was amended again, reducing rent payments over the term of the lease by approximately \$41,000 and extending the term of the 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. Therefore, no disclosure of future minimum lease payments is necessary since the leases are considered cancellable.

7) Reversion to State General Fund

The Office had no reversion amount due to the State General Fund at June 30, 2019.

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Notes to the Financial Statements
June 30, 2019

8) Transfers

Pursuant to the General Appropriation Act of 2019, 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
State General Fund - Department of Finance and Administration	85300/11100	Compensation appropriation	33,800
Total transfers			<u>\$ 2,724,200</u>

9) Retirement Benefits – Public Employees Retirement Association

Compliant with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State has implemented the standard since the fiscal year ending June 30, 2016.

The Office, as part of the primary government of the State of New Mexico, is a contributing employer to a 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 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 CAFR and will be on the DFA’s website. Office contributions to the plan were \$238,428 for the year ended June 30, 2019.

10) Post-Employment Benefits – State Retiree Health Care Plan

Compliant with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the State has implemented this standard beginning with the fiscal year ended June 30, 2018.

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Notes to the Financial Statements
June 30, 2019

The Office, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple-employer defined benefit post-employment health care plan that provides comprehensive group health insurance for persons who have retired from certain public service positions in the State of New Mexico. The other post-employment benefits (OPEB) Plan is administered by the Retiree Health Care Authority of the State of New Mexico. 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 CAFR of the State of New Mexico. Office contributions to the plan were \$28,067 for the year ended June 30, 2019.

Information concerning the net OPEB liability, benefit expense, and OPEB-related deferred inflows and outflows of resources of the primary government will be contained in the CAFR and will be on the DFA's website.

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 created which allow RMD to insure, self-insure or use a combination of both.

12) Subsequent Events

The Office has evaluated subsequent events through October 21, 2019, the date which the financial statements were available to be issued. Management believes that there are no material subsequent events that have arisen that would require disclosure and/or accrual.

13) Joint Powers Agreements

The Office did not have any Joint Powers Agreements in effect in fiscal year 2019.

Supplemental Information

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Combining Balance Sheet – Of Individual Share Fund Accounts
June 30, 2019

	11100	11200	Total
	<u>Adm. Account</u>	<u>Audit Fund</u>	<u>General Fund</u>
Assets			
Investment in State General Fund			
Investment Pool	\$ 200,748	\$ 988,989	\$ 1,189,737
Due from State Agencies	<u>-</u>	<u>40,440</u>	<u>40,440</u>
Total assets	<u>\$ 200,748</u>	<u>\$ 1,029,429</u>	<u>\$ 1,230,177</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 119,791	\$ 258	\$ 120,049
Payroll benefits payable	24,232	3,130	27,362
Payroll taxes payable	17,105	1,754	18,859
Accrued salaries	<u>39,520</u>	<u>4,794</u>	<u>44,314</u>
Total liabilities	<u>200,648</u>	<u>9,936</u>	<u>210,584</u>
Fund balances:			
Restricted to:			
Fiscal year 2020 budget	-	761,400	761,400
Audit expenses	<u>100</u>	<u>258,093</u>	<u>258,193</u>
Total fund balances	<u>100</u>	<u>1,019,493</u>	<u>1,019,593</u>
Total liabilities and fund balances	<u>\$ 200,748</u>	<u>\$ 1,029,429</u>	<u>\$ 1,230,177</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – Of Individual Share Fund Accounts
For the Year Ended June 30, 2019

	11100	11200	Total
	Adm. Account	Audit Fund	General Fund
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Charges for audit services	\$ -	\$ 526,740	\$ 526,740
Total revenues	<u>-</u>	<u>526,740</u>	<u>526,740</u>
 Expenditures:			
General government:			
Current:			
Personal services and employee benefits	2,180,285	351,609	2,531,894
Contractual services	154,824	-	154,824
Other costs	<u>389,091</u>	<u>21,665</u>	<u>410,756</u>
Total expenditures	<u>2,724,200</u>	<u>373,274</u>	<u>3,097,474</u>
 Excess (deficiency) of revenues over expenditures	<u>(2,724,200)</u>	<u>153,466</u>	<u>(2,570,734)</u>
 Other financing sources (uses):			
State general fund appropriation - fiscal year 2019	2,690,400	-	2,690,400
Compensation appropriation	<u>33,800</u>	<u>-</u>	<u>33,800</u>
Total other financing sources (uses)	<u>2,724,200</u>	<u>-</u>	<u>2,724,200</u>
 Net change in fund balance	-	153,466	153,466
 Fund balance, beginning of year	<u>100</u>	<u>866,027</u>	<u>866,127</u>
Fund balance, end of year	<u>\$ 100</u>	<u>\$ 1,019,493</u>	<u>\$ 1,019,593</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Schedule of Performance Measure Results
For the Year Ended June 30, 2019

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 each year since then. The target measure and related results for fiscal year 2019 are shown below. Fiscal year 2020 target measures are reflected in the column at the far right.

Performance Measure	FY 19 Target Measures	FY 19 Results	FY 20 Target Measures
Output: Total audit fees generated	\$ 480,000	\$ 526,740	\$ 300,000
Output: Number of training sessions performed	31	21	33
Outcome: Percent of statutory reviews of audit reports completed within ten days	94%	86%	90%
Outcome: Percent of agency auditor selection requests processed within five days of receipt	*N/A	*N/A	*N/A
Output: Number of working paper reviews of independent public accountants	30	27	30

*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 fiscal year 2018, this performance measure was discontinued.

Compliance Section

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 Brian S. Colón, Esq.
New Mexico State Auditor
Office of the State Auditor
Santa Fe, New Mexico

We have audited, in accordance with the 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 for the general fund of the State of New Mexico Office of the State Auditor (the "Office"), as of and for the year ended June 30, 2019, 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 21, 2019.

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 opinions 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 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free from 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 results of that testing, and not to provide an opinion on the effectiveness of the Office'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.

Loftis Group ^{uc}

Albuquerque, New Mexico
October 21, 2019

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Schedule of Findings and Responses
June 30, 2019

Section I — Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No
Other findings required to be reported under section 12-6-5 NMSA 1978?	No

Section II — Financial Statement Findings

None.

STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR
Summary Schedule of Prior Audit Findings
June 30, 2019

No findings reported in the prior year audit.

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

Exit Conference

June 30, 2019

The audited financial statements of the State of New Mexico Office of the State Auditor were prepared from the original books and records provided by and with the assistance of the Office and Loftis Group, LLC.

The content of this report was discussed at an exit conference held on October 21, 2019, with the following in attendance:

New Mexico Office of the State Auditor

The Honorable Brian S. Colón, Esq., New Mexico State Auditor

Natalie Cordova, CPA, Deputy State Auditor and Chief Financial Officer

Laura Montoya, Budget and Finance Director

Loftis Group, LLC

Armando Sanchez, CPA, CFE, Managing Principal

We appreciate the many courtesies and assistance extended to us by management of the New Mexico Office of the State Auditor.