



MACIAS, GUTIERREZ & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
ESPANOLA, NEW MEXICO
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STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR

Financial Statements and Schedules
For the Fiscal Year Ended June 30, 2011

(With Independent Auditors' Report Thereon)

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR**

**Financial Statements and Schedules
with Independent Auditors' Report Thereon**

For the Fiscal Year Ended June 30, 2011

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR**

June 30, 2011

Official Roster

Susana Martinez

Governor

Keith Gardner

Chief of Staff

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR**

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June 30, 2011**

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INDEPENDENT AUDITORS' REPORT

Honorable Susana Martinez, Governor
and
Honorable Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities and major fund of the State of New Mexico, Office of the Governor (Office) as of and for the year ended June 30, 2011, which collectively comprise the Office's basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons of the organizations of the general fund presented as supplementary information for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the State of New Mexico, Office of the Governor's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the State of New Mexico, Office of the Governor are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities and major fund that are attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2011, and the changes in its financial position thereof and the respective budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities and major fund of the State of New Mexico, Office of the Governor as of June 30, 2011, and the respective changes in financial position thereof, and the respective budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to in the first paragraph presents fairly, in all material respects, the budgetary comparisons of the organizations of the general fund of the State of New Mexico, Office of the Governor for the year ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued our report dated October 26, 2011 on our consideration of the Office's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office's basic financial statements and on the budgetary comparisons presented as supplementary information. The introductory section and accompanying supplementary information listed as schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it. The information in the schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

Macias, Gutierrez & Co., CPAs, P.C.
Espanola, New Mexico
October 26, 2011

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR**

**Management's Discussion and Analysis
June 30, 2011**

The *Management's Discussion and Analysis*, or MD&A, for the State of New Mexico, Office of the Governor (Office) introduces the basic financial statements and provides an analytical overview of the Office's financial conditions and results of operations as of and for the year ended June 30, 2011. The MD&A also provides a discussion of significant changes in the account categories presented in the entity-wide *Statement of Net Assets* and *Statement of Activities*. This summary is intended to be a supplement to and should be read in conjunction with the basic financial statements.

Financial Highlights:

- The Office's liabilities exceeded its assets at the close of the most recent fiscal year by \$57,258 (deficit net assets). This is the direct result of the inclusion of compensated absences in the Statement of Net Assets.
- Capital assets decreased by \$1,387 over the prior year. The Office did not purchase any capital assets during the fiscal year ended June 30, 2011. The decrease in capital assets is due to current year depreciation.
- The Office stayed well within its budgets and did not exceed its total budget appropriation of \$3,814,700. At the end of the current fiscal year, the Office did not have any unreserved, undesignated fund balance for the general fund.
- Total expenditures were \$3,184,216 or \$631,031 less than the total revenues \$3,815,247 for fiscal year ended June 30, 2011. The Office will revert \$473,146 to the State General Fund.

Overview of the Financial Statements:

Although the Office is one of several agencies within the government of the State of New Mexico, the only focus of this financial report is on the Office, and not the State of New Mexico taken as a whole. The financial statements include the following three elements: 1) Management's Discussion and Analysis, 2) the Basic Financial Statements, and 3) Other Supplementary Information.

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 a private-sector business.

The *statement of net assets* presents information on all of the Office's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Office is improving or deteriorating.

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OFFICE OF THE GOVERNOR**

**Management's Discussion and Analysis
June 30, 2011**

The *statement of activities* presents information showing how the Office's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. For this reason revenues and expenses reported in this statement are for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

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's fund is categorized as a governmental fund.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* available at the end of the fiscal year.

Governmental fund statements, which include the *Balance Sheet* and the *Statement of Revenues, Expenditures, and Changes in Fund Balance*, focus on individual parts of the Office to report its financial condition and results of operations in more detail than the entity-wide statements, and tell how governmental activities were financed in the short term as well as what remains for future spending. Emphasis is placed on the general fund which is the sole major governmental fund.

The Office maintains one governmental fund, the general fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund.

The Office adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate its compliance with its approved budget.

Reconciliation. There are two reconciliation statements: the first statement shows the differences between the *government-wide Statement of Net Assets* and the *governmental funds Balance Sheet*. The second one shows the differences between the *government-wide Statement of Activities* and the *governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance*.

Additional details about the Basic Financial Statements are found in the Notes to the Financial Statements and Required Supplementary Information.

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OFFICE OF THE GOVERNOR**

**Management's Discussion and Analysis
June 30, 2011**

Financial Analysis of the Office as a Whole:

Condensed Financial Information:

**Table A-1
Office of the Governor - Statement of Net Assets**

Governmental Activities	Current Year 2011	Prior Year 2010
	<hr/>	<hr/>
Interest in State General Fund investment pool	\$ 640,506	\$ 866,524
Travel Advance	30	-
Due from State Agencies	3,615	1,463
Capital assets	77	
	<hr/>	<hr/>
Total Assets	\$ 644,228	\$ 867,987
Current liabilities	694,836	1,031,894
Noncurrent liabilities	6,650	51,236
Total Liabilities	701,486	1,083,130
	<hr/>	<hr/>
Invested in capital assets	77	1,463
Restricted	-	-
Unrestricted	(57,335)	(216,606)
	<hr/>	<hr/>
Total Net Assets	<u>\$(57,258)</u>	<u>\$(215,143)</u>

As shown in Table A-1 the total assets for the Office of the Governor decreased from \$867,987 in fiscal year ended June 30, 2010 to \$644,228 in FY 2011 or by \$223,759. Current liabilities decreased from \$1,031,894 to \$694,836 or by \$337,058. This decrease is directly attributed to the result of compensated absence liabilities which were paid or used by employees before the change in Administration.

Deficit net assets decreased from \$(215,143) in FY 2010 to \$(57,258). This increase in net assets is primarily the result of decreases in compensated absences and capital asset depreciation with a net result of \$157,885 at June 30, 2011.

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**Management's Discussion and Analysis
June 30, 2011**

**Table A-2
Office of the Governor – Statement of Activities**

Governmental Activities	Current Year 2011	Prior Year 2010
Revenues:		
<i>General revenue:</i> State General Fund	\$ 3,814,700	\$ 4,443,700
Other state funds	547	-
Total Revenues	<u>3,815,247</u>	<u>4,443,700</u>
Expenses:		
Executive Administration	3,182,829	3,750,360
Women's Initiatives	-	5,772
Depreciation expense	1,387	8,959
Total Expenses	<u>3,184,216</u>	<u>3,765,091</u>
Excess/(Deficiency) of revenues over expenditures	631,031	678,609
Other financing uses:		
Reversions	(473,146)	(680,897)
Transfers out	-	-
Change in net assets	<u>157,885</u>	<u>(2,288)</u>
Net assets, beginning of year	(215,143)	(212,855)
Net assets, end of year	<u><u>\$ (57,258)</u></u>	<u><u>\$ (215,143)</u></u>

Table A-2 reflects the changes in the Statement of Activities from Fiscal Year (FY) 2011 to FY 2010. Total revenues saw a slight decrease of 14.1% over the prior fiscal year. State General Fund appropriations decreased by only \$629,000. Expenses decreased by \$580,875 in the current year.

Budgetary Comparisons:

Final amounts budgeted in FY 2011 decreased from FY 2010, \$4,449,516 to \$3,814,700. This decrease is approximately 14.3% and is attributable to budget reductions imposed by the Legislature in 2010.

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OFFICE OF THE GOVERNOR**

**Management's Discussion and Analysis
June 30, 2011**

Economic Factors and Fiscal 2012's Budget:

Macroeconomic forecasts by IHS Global Insight and the FAIR model (Yale University), along with information from the U.S. Bureau of Economic Analysis (BEA) and the U.S. Bureau of Labor Statistics (BLS), are used to prepare the revenue forecast for the State of New Mexico. This information is supplemented with a forecast of the New Mexico economy by the Bureau of Business and Economic Research at the University of New Mexico, tax and workforce information provided by state agencies and federal budget information from the Congressional Budget Office.

Trends in the U.S. Economy:

After growing by 2.3 percent in the fourth quarter of 2010, the United States economy as measured by Gross Domestic Product (GDP) grew slowed to 0.4 percent during the 1st quarter of 2011, and increased to an estimated 1.3 percent growth for the 2nd quarter of 2011. Various releases of economic statistics since July indicate the nation's economic recovery continues to be uneven. As a result of recent weakness, the consensus of most forecasters is that GDP will grow by only 1.3% during FY12, down from 3 percent in previous forecasts. None of the models forecast a recession for FY12. Nationally, the unemployment rate is expected to fall from 9.1 percent in 2011, 2nd quarter to 8.9 percent by year-end 2012. Projected GDP growth in FY13 is now 2 percent. Inflation is expected to reach 2.6 percent by the end of FY12 before moderating. The Federal Reserve Board has announced that it will maintain short-term interest rates at essentially zero percent through the end of 2012. The federal government budget deficit is predicted to be about \$1.3 trillion in the 3rd quarter FY11, 8.5 percent of gross domestic product (GDP).

New Mexico Economy:

New Mexico's seasonally adjusted unemployment rate was 6.7 percent in July 2011, down from 6.8 percent in June and 8.5 percent a year ago. The national unemployment rate dropped to 9.1 percent. July marked the fifth straight monthly decrease in unemployment since the state's jobless rate peaked at 8.7 percent earlier this year. The recent declines resulted in part from workers leaving the labor force, not an increase in employment.

Total employment in New Mexico began increasing in the late spring of 2011 as measured by a comparison with the year-ago period. July continued the trend with further gradual improvement and a second month of positive over-the-year job growth. The state added jobs in the following sectors: educational and health services (7,000 jobs), retail trade (3,300), wholesale trade (1,500), mining (1,500), financial activities (1,300), transportation, warehousing and utilities (500). The manufacturing industry reported employment levels that were unchanged from last year, following a mixed performance earlier this year and previous steep losses. The following private-

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sector industries each recorded declining employment: professional & business services (down 6,000 jobs), construction (down 3,600), information services (down 100 jobs), leisure and hospitality (down 300) and miscellaneous other services (down 600). Government employment registered a net loss of 1,000 jobs from the year-ago total. Declining employment at the federal level was primarily due to the completion of temporary U.S. Census Bureau jobs. State and local government entities reported very minor increases.

New Mexico Revenue Trends:

After declining by 20 percent over FY09 and FY10, General Fund revenue growth turned positive in FY11, growing by 10 percent. Approximately 3.7 percent of the FY11 growth was due to statutory tax increases adopted by the 2010 Legislature, so underlying growth due to the economic recovery was about 6.3 percent. The latest consensus revenue estimating group forecast prepared in July 2011 projects growth of 4.9 percent in both FY12 and FY13. These projections are up significantly from those prepared last winter.

The Gross Receipts Tax (GRT) is the state's largest single revenue source, contributing 34 percent of recurring revenue. GRT collections increased 10 percent in FY11, with about one-third of that growth due to statutory tax increases. In addition to the mining industry, the services sectors are showing significant growth compared with the prior year. The retail trade sector has remained mixed in FY11. Other than a very good December growth has remained subdued or even negative. The benefits of the payroll tax holiday to New Mexican's paychecks appear to have been mostly cancelled out by the burden of higher gas prices at the pump.

Personal income tax collections increased by almost 11 percent in FY11, but roughly half of this growth was due to statutory changes. Withholding payments increased by about 2% in FY11, but payments with tax returns were up by over 13 percent, and refund claims were down almost 10 percent. The consensus group expects PIT growth of 3.8 percent in FY12 and 3.6 percent in FY13. These are relatively slow growth rates for this revenue, a reflection of the sluggish employment growth forecast for the state.

Corporate income tax (CIT) collections rose by 44 percent in FY11, a reflection of improved financial results for many companies. Net revenue growth came in spite of a sharp increase in film credit claims as companies rushed to avoid tighter new rules taking effect July 1, 2011. The U.S. Congressional Budget Office (CBO) projects a significant increase in CIT collections in FY13 and FY14 due to the expiration of bonus depreciation provisions. Since New Mexico piggybacks on those provisions, state collections should experience a similar increase.

General Fund revenue from oil and gas production taxes and royalty payments totaled \$867 million in FY11, equal to 16 percent of General Fund revenue. This was a 6.5 percent increase from FY10, a reflection of higher prices for both oil and gas, and also of higher bonus payments for new wells. The consensus group expects prices to remain relatively stable in FY12, and to

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increase slightly in FY13, causing these revenues to grow by a cumulative 10 percent over two years. Oil production has resumed growth in New Mexico, but natural gas production continues to decline. This reflects the decline in gas prices relative to oil prices over the last two years.

Motor Vehicle Excise Tax (MVX) revenue dropped to only \$92 million in FY10, \$38 million or 30% below the peak year of FY07. For FY11 MVX revenue is now on track to grow almost 12 percent to \$103 million. This is an upward revision of \$4.7 million from December's forecast. Even with FY11's robust growth, the level of revenue in MVX seen in FY07 is not expected to be surpassed again until FY16.

Cigarette excise tax collections increased by an estimated \$42 million in FY11. This was due to 2010 legislation that increased the tax rate by 75 cents, from 91 cents a pack to \$1.66 a pack. The unique feature of this cigarette tax increase was that tribes were required to impose a qualifying tribal cigarette tax themselves of at least 75 cents. The tax increase was forecast to raise an additional \$33 million in FY11. It appears that the tribal tax requirements have largely been implemented correctly and are working as planned. Even though taxable sales volumes did drop the reduction in sales and shift to tribal sales was not as large as anticipated. Cigarette revenue is now expected to be about \$6 million higher than in the December estimate.

Risks to the Forecast:

Negative Risks:

Housing markets remain depressed as foreclosures and short sales continue to push prices down and reduce the incentive to construct new homes. Employment growth is below levels needed to reduce the unemployment rate. High unemployment prevents significant wage gains and holds down growth of consumer spending. The sovereign debt crisis is still far from resolution. It poses significant risks to worldwide growth.

Positive Risks:

Reversal of food and energy price spikes from the spring could trigger faster consumer spending growth in the second half of this year. Falling gasoline prices and recovery of Japan's auto parts supplies could stimulate vehicle sales and domestic production. Improved business confidence and easier credit could stimulate investment, including a boost to the construction sector. Although further stimulus actions are being contemplated, their impacts will be offset over time by the need to reduce federal indebtedness and to avoid long-term inflationary impacts.

**STATE OF NEW MEXICO
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**Management's Discussion and Analysis
June 30, 2011**

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide New Mexico residents, taxpayers, customers, legislators and vendors with a general overview of the Office's finances and to demonstrate the Office's accountability for the funding it receives. If you have any questions about this report or need additional information, contact:

Office of the Governor
State Capitol Building
Santa Fe, New Mexico 87503

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR**

**Statement of Net Assets
(Government-Wide)
June 30, 2011**

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Interest in State General Fund investment pool	\$ 640,506
Travel Advance	30
Due from Other State Agencies	3,615
Noncurrent assets:	
Capital assets, net of depreciation	77
Total Assets	<u>644,228</u>
LIABILITIES	
Current liabilities:	
Accounts payable	91,845
Accrued Salaries	64,433
Payroll taxes payable	5,918
Other payroll liabilities	8,809
Due to State General Fund	473,146
Current portion of compensated absences	50,685
Total current liabilities	<u>694,836</u>
Noncurrent liabilities:	
Noncurrent portion of compensated absences	6,650
Total Liabilities	<u>701,486</u>
NET ASSETS	
Invested in capital assets	77
Restricted	-
Unrestricted	<u>(57,335)</u>
Total Net Assets	<u>\$ (57,258)</u>

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

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR**

**Statement of Activities
(Government-Wide)
For the Year Ended June 30, 2011**

	Governmental Activities
Expenses:	
Executive Administration	\$ 3,182,829
Depreciation expense - unallocated	1,387
	3,184,216
Revenues:	
Other State Funds	547
	547
Net Program expense	3,183,669
Transfers:	
State General Fund appropriations	3,814,700
Reversion fiscal year 2011	(473,146)
	3,341,554
Change in net assets	157,885
Net assets, beginning of year	(215,143)
Net assets, end of year	\$ (57,258)

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

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**Balance Sheet
Governmental Funds
June 30, 2011**

	<u>General Fund</u>
ASSETS	
Interest in State General Fund investment pool	\$ 640,506
Travel Advance	30
Due from Other State Agencies	<u>3,615</u>
Total Assets	<u><u>\$ 644,151</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 91,845
Accrued salaries	64,433
Payroll taxes payable	5,918
Other payroll liabilities	8,809
Due to State General Fund	<u>473,146</u>
Total Liabilities	<u>644,151</u>
Fund balances:	
Unassigned	<u>-</u>
Total Liabilities and Fund Balance	<u><u>\$ 644,151</u></u>

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

STATE OF NEW MEXICO
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Reconciliation of the Balance Sheet
to the Statement of Net Assets
Governmental Funds
June 30, 2011

Total fund balance for governmental fund		\$	-
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
These assets consist of:			
Property, plant and equipment		\$	27,440
Accumulated depreciation			(27,363)
Total capital assets			<u>77</u>
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:			
Compensated absences			<u>(57,335)</u>
Total liabilities			<u>(57,335)</u>
Net assets of governmental activities		\$	<u><u>(57,258)</u></u>

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

STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR

Statement of Revenues, Expenditures and
Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2011

	<u>General Fund</u>
Expenditures:	
Current:	
Executive Administration	\$ 3,342,101
Total expenditures	<u>3,342,101</u>
Excess (deficiency) of revenues over expenditures	<u>(3,342,101)</u>
Other financing sources (uses):	
State General Fund appropriation	3,814,700
Miscellaneous	547
Reversion fiscal year 2011	<u>(473,146)</u>
Total other financing sources (uses)	<u>3,342,101</u>
Net change in fund balance	-
Fund balance, beginning of year	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>

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

STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balance of
Governmental Funds to the Statement of
Activities-Governmental Funds
For the Year Ended June 30, 2011

Net change in fund balance - total governmental fund (Statement of revenues, expenditures, and changes in fund balance)	\$ -
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays purchases are reported as expenditures in governmental funds. However, in the statement of activities, the costs of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, depreciation expense was recorded as	(1,387)
Revenues and expenses recognized in the statement of activities, not reported in governmental funds:	
Decrease in compensated absences	<u>159,272</u>
Changes in Net Assets in Governmental Activities	<u><u>\$ 157,885</u></u>

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

**STATE OF NEW MEXICO
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**Statement of Revenues and Expenditures
Budget and Actual (GAAP Basis)
General Fund
For the Year Ended June 30, 2011**

	General Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actuals	
	Original	Final		
Revenues:				
General Fund Appropriation	\$ 3,814,700	\$ 3,814,700	\$ 3,814,700	\$ -
Miscellaneous	-	-	547	547
	<u>3,814,700</u>	<u>3,814,700</u>	<u>3,815,247</u>	<u>547</u>
Total revenues and cash balance budgeted	<u>\$ 3,814,700</u>	<u>\$ 3,814,700</u>	<u>3,815,247</u>	<u>547</u>
Expenditures:				
Personal services and benefits	\$ 3,197,500	\$ 2,857,500	2,576,772	280,728
Contractual services	100,800	140,800	110,397	30,403
Other costs	516,400	816,400	654,932	161,468
	<u>3,814,700</u>	<u>3,814,700</u>	<u>3,342,101</u>	<u>472,599</u>
Total expenditures	<u>\$ 3,814,700</u>	<u>\$ 3,814,700</u>	<u>3,342,101</u>	<u>472,599</u>
Excess revenues over expenditures			<u>\$ 473,146</u>	<u>\$ 473,146</u>

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

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR**

**Notes to the Financial Statements
June 30, 2011**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Office of the Governor (the Office) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting standards.

The GASB has issued Statement 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, Statement 37, *Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments*, and Statement 38, *Certain Financial Statement Note Disclosures*. These standards establish new financial reporting requirements for state and local governments throughout the United States of America. The statements require new information and restructuring on much of the information presented in past audited financial statements.

The Office is responsible for the fair presentation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America. The Office has implemented these standards beginning with the fiscal year ended June 30, 2002. With the implementation of GASB Statement 34, the Office has prepared required supplementary information titled Management’s Discussion and Analysis, which precedes the basic financial statements. The more significant of the Office’s accounting policies are described below:

A. Financial Reporting Entity

The financial reporting entity as defined by GASB Statement 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the “cornerstone of all financial reporting in government.”

A primary government is any state government or general purpose local government consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The Office therefore is part of the primary government of the State of New Mexico and its financial data should be included with the financial data of the State. However, New Mexico does not at present issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government. Additionally, the Office has no component units that are required to be reported in its financial statements.

The Office of the Governor was created by the Constitution of New Mexico, Article V, Section I as adopted January 21, 1921 and subsequently amended by the people in General and Special Elections from 1922 through 1984. The major statutory authority is contained in Sections 4 through 6. Section 4 vests in the Governor supreme executive power in the state and charges the Governor with the responsibility typically assigned to state chief executives, including those of the Commander-in-Chief of the National Guard.

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Other constitutional and statutory provisions grant the Chief Executive usual gubernatorial powers with regard to appointments and removals; pardons and reprieves; the veto over bills, including line item veto over money bills; and calls for special legislative sessions. The Governor is also an ex-officio member of state boards and commissions and presides over the State Board of Finance.

The Governor is elected to a four year term of office and may serve two consecutive terms.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

Basic Financial Statements – GASB Statement No. 34

The basic financial statements include both government-wide (based on the Office as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. The Office is a single purpose government entity and has no business type activities. In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

This government-wide focus is more on the sustainability of the Office as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Neither fiduciary funds nor component units that are fiduciary in nature are included in the government-wide statements.

The fund financial statements are very similar to the financial statements presented in the previous model. Emphasis is on the major funds of the governmental category. Non-major funds are summarized into a single column. The Office's only major fund is its general fund.

The governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which funds are normally budgeted. This presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of the liquid resources and to demonstrate how the Office's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

The focus of the current presentation is on the Office as a whole and the fund financial statements including the major funds of the governmental category.

The financial transactions of the Office are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

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The standards set forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combined) for the determination of major funds.

The following fund types are used by the Office:

GOVERNMENTAL FUND TYPES

All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. The following is a description of the Governmental Funds of the Office:

General Fund

The General Fund is the general operating fund of the Office. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is funded primarily from appropriations from the State of New Mexico General Fund.

The General Fund is a reverting fund.

C. Noncurrent Governmental Assets/Liabilities

GASB Statement 34 eliminates the presentation of account groups but provides for these records to be maintained and incorporates the information into the governmental column in the government-wide Statement of Net Assets.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The Office has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

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Revenues, expenses, gains, losses, assets and liabilities resulting from exchanged transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with requirements of GASB 33.

The governmental funds in the fund financial statements utilize the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the current fiscal period; available meaning collectible within sixty (60) days or soon enough thereafter to be used to pay liabilities of the current period.

Contributions and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual. Revenues from grants that are restricted for specific uses are recognized when all eligibility requirements have been met and when the related expenditures are made.

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are not accrued as current liabilities but as non-current liabilities.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Office first uses restricted resources then unrestricted resources.

E. Assets, Liabilities, and Equity

1. Interest in State General Fund Investment Pool

Cash consists of interest in State General Fund investment pool. A Supplemental Schedule of Interest in State General Fund Investment Pool with the State Treasurer is included in the Supplementary Information section of this report.

2. Capital Assets

Property, plant and equipment purchased or acquired at a value of \$5,000 or greater are capitalized. New Mexico Laws of 2005, Chapter 237, Section 1 changed the capitalization threshold for movable chattel and equipment from items costing more than \$1,000 to \$5,000. Under this law, items in the capital asset inventory that do not meet the new capitalization threshold continue to be depreciated in future periods until they are fully depreciated. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets, including software acquired is provided on the straight-line basis over the following estimated useful lives with no salvage value.

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	<u>Years</u>
Furniture/Fixtures	10
Data Processing Equipment	3-5
Equipment	10

The Office utilizes buildings, furniture and equipment that are owned by the Property Control Division of the State of New Mexico General Services Department. These assets and related depreciation expense are not included in the accompanying financial statements. The Office does not own any infrastructure assets.

3. Compensated Absences

It is the policy of the Office to permit employees to accumulate earned but unused vacation and sick pay benefits. No expenditure is reported for these amounts in the fund financial statements.

Qualified employees are entitled to accumulate vacation leave according to a graduated leave schedule of 120 to 192 hours per year, depending upon the length of service and employees hire date. A maximum of thirty working days (240 hours) of such accumulated vacation leave may be carried forward into the beginning of the calendar year.

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave which an employee may accumulate. Once per fiscal year in either January or July, employees may elect to be paid for 50 percent of accrued sick leave in excess of 600 hours, up to 720 hours, not to exceed 120 hours. In the case of retiring employees, they are paid for 50 percent of accrued sick leave in excess of 600, up to 1,000 hours, not to exceed 400 hours.

4. Fund Balance

The GASB has issued Statement 54 Fund Balance Reporting and Governmental Fund Type Definitions. In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned, or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or in some cases by legislation.

All revenue sources appropriated to the Office are subject to the restrictions placed on them by outside funding sources, provisions of enabling legislation and applicable statutes, and by the language of legislative awards appropriated to the Office. Currently, the Office has no net assets or fund balances that should be classified as unreserved or undesignated. Once the applicable conditions have been satisfied, remaining sources revert to the original funding source.

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5. Net Assets

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt, if applicable), restricted and unrestricted.

Investment in capital assets (net of related debt) – is intended to reflect the portion of net assets which are associated with capital assets less outstanding capital asset related debt. The Office has no debt related to capital assets.

Restricted net assets – are assets (generated from revenues and not bond proceeds), which have third-party (statutory, bond covenant or granting agency) limitations on their use.

Unrestricted net assets – are assets that do not have third-party (statutory, bond covenant or granting agency) limitations on their use. The unrestricted deficit (\$57,335) is due to recognition of compensated absences which is uncorrectable in a reverting agency.

6. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7. Inter-fund Activity

Inter-fund receivables or payables at year end are netted as part of the reconciliation to the government-wide financial statements. There was no inter-fund activity during the fiscal year for the Office.

Note 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

The state legislature makes annual appropriations to the Office. Legal compliance is monitored through the establishment of an annual budget for the General Fund.

The following are the procedures followed in establishing the budgetary data presented in the financial statements.

1. The Office submits a proposed budget to the New Mexico state legislature for the fiscal year commencing the following July 1. The state legislature must approve the budget prior to its legal enactment.
2. The expenditures and encumbrances of each appropriation unit may not legally exceed the budget for that appropriation unit. Budgets are controlled at the “appropriation unit” level

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within activities (personal services and employee benefits, contractual services and other expenditures).

3. Any adjustment to the budget must be submitted and approved by the State of New Mexico Department of Finance and Administration in the form of a budget adjustment request.
4. The budget is adopted on a modified accrual basis of accounting that is consistent with generally accepted accounting principles (GAAP). This change was implemented with the Laws of 2004, Chapter 114, Section 3, Paragraph N and Paragraph O. This change is effective for fiscal years beginning July 1, 2004. Budgetary comparisons presented in the financial statements are now presented on a basis which is consistent with generally accepted accounting principles.
5. The Office has been designated as a “reverting agency” by the New Mexico state legislature and, therefore, balances in state agency accounts remaining at the end of the fiscal year from appropriations made from the State General Fund shall revert to the State General Fund, unless otherwise indicated in the General Appropriation Act or otherwise provided by law.

B. Revenue Recognition

State General Fund appropriations are recognized in the year the appropriation is made. Revenues are deemed both measurable and available if collected within the current year or two months after the end of the fiscal year.

C. Program Revenue

Program revenues include program specific operating grants from federal sources or other state agencies. No allocation of indirect expenses is made by function as costs not accounted for by activity are considered immaterial.

Note 3. DETAILED NOTES ON ALL FUNDS

A. Interest in the State General Fund Investment Pool

State law requires the Office cash be managed by the New Mexico State Treasurer’s Office. Accordingly, the investments of the Office consist of an interest in the investment pools managed by the New Mexico State Treasurer’s Office.

At June 30, 2011 the Office had the following in pooled cash:

Interest in State General Fund Investment Pool	\$640,506
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Interest Rate Risk. The State Investment Pool does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The New Mexico State Treasurer pools are not rated.

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For additional GASB disclosure information regarding cash held by the State Treasurer, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2011.

B. Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

<u>Cost</u>	<u>Balance 6/30/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2011</u>
Office equipment	\$ 2,135	\$ -	\$ -	\$ 2,135
Furniture	62,743	-	(37,438)	25,305
Data Processing	11,880	-	(11,880)	-
	<u>76,758</u>	<u>-</u>	<u>(49,318)</u>	<u>27,440</u>
<u>Accumulated Depreciation</u>				
Office equipment	(1,754)	(305)		(2,059)
Furniture	(61,660)	(1,082)	37,438	(25,304)
Data Processing	(11,881)	-	11,880	-
	<u>(75,295)</u>	<u>(1,387)</u>	<u>49,318</u>	<u>(27,363)</u>
Net book value	<u>\$ 1,463</u>	<u>\$ (1,387)</u>	<u>\$ -</u>	<u>\$ 77</u>

The deletions to the capital assets owned by the Governor's Office represent assets with a value of less than \$5,000 that were fully depreciated at June 30, 2011.

The Office does not have any debt related to capital assets. Depreciation expense totaled \$1,387 for the year ended June 30, 2011.

C. Accounts Payable

Accounts payable represents expenditures incurred as of June 30, 2011 but not paid until fiscal year 2012.

D. Due to State General Fund

Refer to Schedule 3 – Supplemental Schedule of Due to State General Fund

E. Compensated Absences

The following is a summary of changes in compensated absences.

	<u>Balance 6/30/2010</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance 6/30/2011</u>	<u>Due within One Year</u>	<u>Due over One Year</u>
Annual	\$ 205,491	\$ 113,970	\$ (262,126)	\$ 57,335	\$ 50,685	\$ 6,650
Sick	11,115	-	(11,115)	-	-	-
Totals	<u>\$ 216,606</u>	<u>\$ 113,970</u>	<u>\$ (273,241)</u>	<u>\$ 57,335</u>	<u>\$ 50,685</u>	<u>\$ 6,650</u>

Compensated absences are typically paid with general fund resources when used by employees.

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F. Operating Leases

The Office leases equipment under operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreement are not reflected in the liabilities of the Office. Leases are subject to future appropriation and are cancelable by the Office at the end of each fiscal year. The Office had 4 operating leases that expired during FY 2010. They are all now on a month to month basis. Therefore, there are no future minimum lease payments. Equipment rental expenditures for the year ended June 30, 2011 were \$22,453

Note 4. OTHER INFORMATION

A. Retirement Plan, Deferred Compensation Plan, and Post Employment Benefits

Pension Plan – Public Employees’ Retirement Association

Plan Description. Substantially all of the Office of the Governor’s full time employees participate in a public employee retirement system authorized under the Public Employees’ Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees’ Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P. O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA’s website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute from 4.0% to 16.65% depending upon the plan - i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer of their gross salary. The Office of the Governor is required to contribute from 7.0% to 25.72% depending upon the plan of the gross covered salary. The contribution requirements of plan members and the Office of the Governor are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Office of the Governor contributions to PERA for the fiscal years ending June 30, 2011, 2010 and 2009 were \$246,316, \$322,580, and \$403,078, respectively, which equal the amount of the required contributions for each fiscal year.

Deferred Compensation

The State of New Mexico offers state, local government and school district employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The plan is available to all state employees and those local government and school district employees whose employers have elected to participate in the plan. The plan permits participants to defer a portion of their salary until future years.

The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

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All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are the property of the participant.

Employees of the Office are making contributions to the Deferred Compensation Plan. Neither the Office nor the State of New Mexico makes any contributions to the Deferred Compensation Plan. All contributions withheld from participants by the Office have been paid to PERA who administers the plan.

Post-Employment Benefits – State Retiree Health Care Plan

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended **June 30, 2011**, the statute required each participating employer to

**STATE OF NEW MEXICO
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**Notes to the Financial Statements
June 30, 2011**

contribute **1.666%** of each participating employee's annual salary; each participating employee was required to contribute **.8333%** of their salary. In the fiscal years ending **June 30, 2012 and June 30, 2013** the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan the contribution rates will be:

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

For employees who are members of an enhanced retirement plan (state police and adult correctional officer coverage plan 1; municipal police member coverage plans 3, 4 and 5; municipal fire member coverage plan 3, 4 and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978]), **during the fiscal year ended June 30, 2011**, the statute required each participating employer to contribute **2.084%** of each participating employee's annual salary, and each participating employee was required to contribute **1.042%** of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013 the contributions rates for both employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY12	2.292%	1.146%
FY13	2.500%	1.250%

Also, employers joining the program after 1/1/98 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals. The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature. The Office of the Governor's contributions to the RHCA for the years ended June 30, **2011, 2010 and 2009** were \$26,966, \$26,339 and \$29,494, respectively, which equal the required contributions for each year.

B. Risk Management

The Office of the Governor is exposed to various risk of loss. The Office carries insurance with the Risk Management Division of the New Mexico General Services Department. Coverage is provided for the following: General Liability, property and civil rights.

STATE OF NEW MEXICO
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Schedule of Interest in State General Fund Investment Pool
June 30, 2011

	<u>Fund Number</u>	<u>Book Balance</u>	<u>Current Status</u>
Operating Account	17600	<u>\$ 640,506</u>	Active

See Auditor's Report.

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**Schedule of Transfers
For the Year Ended June 30, 2011**

	<u>Agency Fund</u>	<u>SHARE Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Purpose</u>
DFA - State General Fund	17600	85300	\$ 3,814,700 <u>3,814,700</u>	\$ - -	State general fund appropriation
DFA - State General Fund	17600	85300	<u>-</u>	<u>473,146</u>	State General fund reversion
			<u>\$ 3,814,700</u>	<u>\$ 473,146</u>	

See Auditor's Report.

STATE OF NEW MEXICO
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Schedule of Due to State General Fund
June 30, 2011

	<u>Business Unit</u>	<u>SHARE Fund</u>	<u>Amount</u>	<u>Purpose</u>
Governmental Funds:				
Budget fiscal year 2011	34101	85300	\$ 472,599	Unexpended balance for BFY11
Prior-year reimbursement	34101	85300	<u>547</u>	Miscellaneous Revenue
			<u>\$ 473,146</u>	

See Auditor's Report.

STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR

Schedule of Due To and From Other State Agencies
June 30, 2011

The Due to and from Other State Agencies is comprised of the following:

	<u>Business Unit</u>	<u>SHARE Fund</u>	<u>Amount</u>	<u>Purpose</u>
	<u>State Agency Due From</u>			
Governmental Fund:				
Office of the Governor/ Dept of Public Safety	35600	17600	\$ 1,601	To reimburse Governor's Office for Security Detail expenses charged on the P-Card.
Office of the Governor/Dept of Finance & Admin	35600	17600	<u>2,014</u>	To correct error in payment of payroll liabilities
			<u>\$ 3,615</u>	

See Auditor's Report

**STATE OF NEW MEXICO
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**Schedule of Memorandums of Understanding
For the year ended June 30, 2011**

<u>Participants</u>	<u>Administering Agency</u>	<u>Description</u>	<u>Term</u>	<u>Total Amount</u>	<u>Governor's Amount</u>	<u>Audit Responsibility</u>
Governor's Office/ Economic Development	Governor's Office	Reimbursement to EDD per MOU for Director of Transition	10/9/2010 - 12/31/2010	\$ 1,803	\$ 1,803	EDD/GOV

(1) Reporting is the responsibility of all parties involved.

(2) The expenditures are reported in the books of the responsible party.

See Auditor's Report



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

Honorable Susana Martinez, Governor
and
Honorable Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities and major fund of the State of New Mexico, Office of the Governor (Office) as of and for the year ended June 30, 2011, which collectively comprise the Office's basic financial statements and have issued our report thereon dated October 26, 2011. We have also audited the budgetary comparison statements for the year ended June 30, 2011, presented as supplementary information. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The Office's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Office's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under **Government Auditing Standards**.

This report is intended solely for the information and use of management, the Department of Finance and Administration, the Office of the State Auditor, the New Mexico Legislature and its committees and is not intended to be and should not be used by anyone other than these specified parties.

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

Macias, Gutierrez & Co., CPAs, P.C.
Española, New Mexico
October 26, 2011

OFFICE OF THE GOVERNOR

**Schedule of Findings and Responses
June 30, 2011**

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

*** Legend for Findings:**

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

OFFICE OF THE GOVERNOR

**Exit Conference
June 30, 2011**

Financial Statement Presentation

The financial statements and notes to the financial statements were prepared by the staff of the Department of Finance and Administration (DFA) on behalf of the Office of the Governor.

* * * * *

EXIT CONFERENCE

The financial statements and the auditors' reports were discussed at an exit conference held on November 1, 2011 with the following in attendance:

Office of the Governor

Alexis Valdez Darnell, Director of Operations
Sylvia Barela, ASD Director, DFA
Robyn Romero, DFA, ASD, CFO

Audit Firm

James R. (Jim) Macias, CPA