

State of New Mexico
Office of the Governor

Annual Financial Report

June 30, 2014



AXIOM

*Certified Public Accountants
and Business Advisors LLC*

INTRODUCTORY SECTION

STATE OF NEW MEXICO

Office of the Governor

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STATE OF NEW MEXICO
Office of the Governor
Official Roster
June 30, 2014

OFFICIAL ROSTER

Susana Martinez

Governor

Keith Gardner

Chief of Staff

FINANCIAL SECTION

Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying 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 Governor (Office), as of and for the year ended June 30, 2014, 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Office, as of June 30, 2014, and the respective changes in financial position and the respective budgetary comparisons 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 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 the 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, 2014 and the changes in its financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the Office's basic financial statements. The other schedules required by Section 2.2.2. NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the other schedules required by Section 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic 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 December 15, 2014 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 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* in considering the Office's internal control over financial reporting and compliance.



Axiom CPAs and Business Advisors, LLC
Albuquerque, New Mexico
December 15, 2014

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

**Management's Discussion and Analysis
June 30, 2014**

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, 2014. The MD&A also provides a discussion of significant changes in the account categories presented in the entity-wide *Statement of Net Position* 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 \$130,581 (deficit net position). This is the direct result of the inclusion of compensated absences in the Statement of Net Position.
- Capital assets have been fully depreciated. The Office did not purchase any capital assets during the fiscal year ended June 30, 2014. There is no change in capital assets.
- The Office stayed well within its budgets and did not exceed its total budget appropriation of \$3,587,100. At the end of the current fiscal year, the Office did not have any unreserved, undesignated fund balance for the general fund.
- Total expenses were \$3,199,932 or \$409,443 less than the total revenues \$3,609,000 for fiscal year ended June 30, 2014. The Office will revert \$429,458 to the State General Fund which includes current year reversion of \$424,599.

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 position* presents information on all of the Office's assets and liabilities, with the difference between the two 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 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*. For

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

**Management's Discussion and Analysis
June 30, 2014**

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 Position* 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 Other Supplementary Information.

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

**Management's Discussion and Analysis
June 30, 2014**

Financial Analysis of the Office as a Whole:

Condensed Financial Information:

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

	Current Year 2014	Prior Year 2013
Governmental Activities		
Interest in State General Fund investment pool	\$ 526,324	\$ 572,319
Other Receivables	17	2,006
	526,341	\$ 574,325
Total Assets		
Current liabilities	614,093	661,607
Noncurrent liabilities	42,829	27,768
Total Liabilities	656,922	689,375
Net investment in capital assets	-	-
Restricted	-	-
Unrestricted	(130,581)	(115,050)
Total Net Position	\$ (130,581)	\$ (115,050)

As shown in Table A-1 the total assets for the Office of the Governor decreased from \$574,325 in fiscal year ended June 30, 2013 to \$526,341 in FY 2014 or by \$47,984. Current liabilities decreased from \$661,607 to \$614,093 or by \$47,514. This decrease is attributed to the reversion amount.

Net Position decreased from \$(115,050) in FY 2013 to \$(130,581). This decrease in net position is primarily the result of an increase in compensated absences in the amount of \$15,531 at June 30, 2014.

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

**Management's Discussion and Analysis
June 30, 2014**

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

Governmental Activities	Current Year 2014	Prior Year 2013
Revenues:		
<i>General revenue:</i> State General Fund	\$ 3,587,100	\$ 3,391,600
Miscellaneous Revenue	21,900	836
Total Revenues	<u>3,609,000</u>	<u>3,392,436</u>
Expenses:		
Executive Administration	3,199,932	2,984,129
Depreciation Expense	-	-
Total Expenses	<u>3,199,932</u>	<u>2,984,129</u>
Excess/(Deficiency) of revenues over expenses	409,608	408,307
Other financing uses:		
Reversions	(424,599)	(417,917)
Transfers out	-	-
Change in net position	<u>(15,531)</u>	<u>(9,610)</u>
Net position, beginning of year	<u>(115,050)</u>	<u>(105,440)</u>
Net position, end of year	<u>\$ (130,581)</u>	<u>\$ (115,050)</u>

Table A-2 reflects the changes in the Statement of Activities from Fiscal Year (FY) 2014 to FY 2013. Total revenues saw a slight increase of over 6% over the prior fiscal year. State General Fund appropriations increased by \$195,500. Expenses increased by \$215,803 in the current year.

Budgetary Comparisons:

Final amounts budgeted in FY 2014 increased from FY 2013, \$3,391,600 to \$3,587,100. This increase is approximately 5.5%.

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

**Management's Discussion and Analysis
June 30, 2014**

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

BASIC FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
STATEMENT OF NET POSITION
June 30, 2014**

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Interest in State General Fund investment pool	\$ 526,324
Other Receivables	17
Total current assets	<u>526,341</u>
Noncurrent assets:	
Capital assets, net of depreciation	-
Total Assets	<u>526,341</u>
LIABILITIES	
Current liabilities:	
Accounts payable	40,171
Accrued Salaries	27,158
Payroll taxes payable	10,749
Other payroll liabilities	18,451
Due to other governments	610
Due to State General Fund - PY	4,859
Due to State General Fund	424,343
Current portion of compensated absences	87,752
Total current liabilities	<u>614,093</u>
Noncurrent liabilities:	
Noncurrent portion of compensated absences	42,829
Total Liabilities	<u>656,922</u>
NET POSITION	
Net investment in capital assets	-
Restricted	-
Unrestricted	<u>(130,581)</u>
Total Net Position	<u>\$ (130,581)</u>

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

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014**

	Governmental Activities
	<u> </u>
Expenses:	
Executive Administration	\$ 3,169,126
Depreciation expense - unallocated	<u> -</u>
	3,169,126
Revenues:	
Other financing sources	<u> 21,900</u>
Net Program expense	<u> 3,147,226</u>
Transfers:	
State General Fund appropriations	3,587,100
Reversion fiscal year 2014	<u> (424,343)</u>
Net Transfers	<u> 3,162,757</u>
Change in Net Position	(15,531)
Net Position, beginning of year	<u> (115,050)</u>
Net Position, end of year	<u><u> \$ (130,581)</u></u>

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

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014**

	General Fund
	<u> </u>
ASSETS	
Interest in State General Fund investment pool	\$ 526,324
Other Receivables	17
	<u> </u>
Total Assets	<u><u>\$ 526,341</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 40,171
Accrued salaries	27,158
Payroll taxes payable	10,749
Other payroll liabilities	18,451
Due to other governments	610
Due to State General Fund - PY	4,859
Due to State General Fund	424,343
	<u> </u>
Total Liabilities	<u>526,341</u>
Fund balances:	
Unassigned	<u>-</u>
Total Liabilities and Fund Balance	<u><u>\$ 526,341</u></u>

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

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014**

Total fund balance for governmental fund		\$	-
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.			
These assets consist of:			
Property, plant and equipment	\$	27,440	
Accumulated depreciation		<u>(27,440)</u>	
Total capital assets			-
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>(130,581)</u>	
Total liabilities			<u>(130,581)</u>
Net Position of governmental activities		\$	<u><u>(130,581)</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, 2014**

	<u>General Fund</u>
Expenditures:	
Current:	
Executive Administration	\$ <u>3,184,657</u>
Total expenditures	<u>3,184,657</u>
Excess (deficiency) of revenues over expenditures	<u>(3,184,657)</u>
Other financing sources (uses):	
State General Fund appropriation	3,587,100
Reversion fiscal year 2014	(424,343)
Other financing sources	<u>21,900</u>
Total other financing sources (uses)	<u>3,184,657</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, 2014**

Net change in fund balance - total governmental fund (Statement of revenues, expenditures, and changes in fund balance)	\$ -
Revenues and expenses recognized in the statement of activities, not reported in governmental funds:	
Increase in compensated absences	<u>(15,531)</u>
Changes in Net Position in Governmental Activities	<u>\$ (15,531)</u>

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

STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
Statement of Revenues and Expenditures
Statement of Revenues and Expenditures
Budget and Actual (GAAP Basis)
General Fund
For the Year Ended June 30, 2014

	General Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actuals	
	Original	Final		
Revenues:				
General Fund Appropriation	\$ 3,587,100	3,587,100	3,587,100	-
Other financing sources	21,900	21,900	21,900	-
	<u>3,609,000</u>	<u>3,587,100</u>	<u>3,609,000</u>	<u>-</u>
Total revenues and cash balance budgeted	<u>\$ 3,609,000</u>	<u>3,587,100</u>	<u>3,609,000</u>	<u>-</u>
Expenditures:				
Personal services and benefits	\$ 2,991,800	2,961,800	2,736,196	225,604
Contractual services	100,800	130,800	76,506	54,294
Other costs	516,400	516,400	371,955	144,445
	<u>\$ 3,609,000</u>	<u>3,609,000</u>	<u>3,184,657</u>	<u>424,343</u>
Excess revenues over expenditures			<u>\$ 424,343</u>	<u>424,343</u>

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

NOTES TO FINANCIAL STATEMENT

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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 as amended by GASB 61 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. The Office has no component units that are required to be reported in its financial statements.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Copies of the State of New Mexico's Comprehensive Annual Financial Report and the State General Fund's Annual Financial Report can be requested from the Department of Finance and Administration, Financial Control Division/State Controller, Bataan Memorial Building, Room 320, Santa Fe, NM 87501

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.

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 Position, 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.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (continued)

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. 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:

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Position.

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. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. 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.

Due to the implementation of GASBS 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, in fiscal year 2013, the Office has reclassified "net assets" in the financial statements as "net position." During FY13, the Office also implemented GASBS 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASBS 62 incorporates any old FASB statements that apply to government accounting into GASB statements. Therefore, the old policy disclosure is no longer necessary, regarding what FASB pronouncements apply, or do not apply, to the Office financial statements.

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

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (continued)

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.

	Years
Furniture/Fixtures	10
Data Processing Equipment	3-5
Equipment	10

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Capital Assets (continued)

depreciation expense are not included in the accompanying financial statements. The Office does not own any infrastructure assets.

4. 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.

5. 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 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.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Net Position

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

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

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

Unrestricted net position – is net position that does not have third-party (statutory, bond covenant or granting agency) limitations on its use. The unrestricted deficit (\$115,050) is due to recognition of compensated absences which is uncorrectable in a reverting agency.

7. 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, 2014.

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. The Office did not have any items that were required to be reported in this category as of June 30, 2014.

8. 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.

9. 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.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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 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.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014, the Office had the following in pooled cash:

Interest in State General Fund Investment Pool \$526,324.

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.

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, 2014.

B. Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

<u>Cost</u>	<u>Balance 6/30/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2014</u>
Office Equipment	\$ 2,135	-	-	2,135
Furniture	25,305	-	-	25,305
	<u>27,440</u>			<u>27,440</u>
<u>Accumulated Depreciation</u>				
Office Equipment	(2,135)	-	-	(2,135)
Furniture	(25,305)	-	-	(25,305)
Net book value	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

B. Capital Assets (Continued)

The Office does not have any debt related to capital assets. There was no depreciation expense for the year ended June 30, 2014

C. Accounts Payable

Accounts payable represents expenditures incurred as of June 30, 2014 but not paid until fiscal year 2015.

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 the changes in compensated absences:

	Balance 6/30/2013	Increase	(Decrease)	Balance 6/30/2014	Due Within One Year	Due Over One Year
	\$ 114,340	122,042	(105,801)	130,581	87,752	42,829
Totals	\$ 114,340	122,042	(105,801)	130,581	87,752	42,829

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

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 has commitments for lease obligations in the following amounts:

Fiscal Year	Postage Machine	Copiers	Total of Leases
2015	\$ 2,388	7,515	9,903
2016	498	-	498
Totals	\$ 2,886	7,515	10,401

Equipment rental expenditures for the year ended June 30, 2014 were \$10,532.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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

Funding Policy. Plan members are required to contribute 8.92% (ranges from **3.83% 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 16.59% (ranges 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, 2014, 2013, and 2012 were \$285,891, \$260,294, and \$246,700, 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.

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.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

A. Retirement Plan, Deferred Compensation Plan, and Post-Employment Benefits (Continued)

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

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 4. OTHER INFORMATION (CONTINUED)

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended **June 30, 2013**, the statute required each participating employer to contribute **2.0%** of each participating employee's annual salary; each participating employee was required to contribute **1.0%** of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Office of the Governor's contributions to the RHCA for the years ended June 30, 2014, 2013 and 2012 were \$36,022, \$34,521, and \$33,752, respectively, which equal the required contributions for each year.

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.

Note 5. RECENT ACCOUNTING PRONOUNCEMENTS

In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement, which is effective for financial statements for periods beginning after December 15, 2012, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The Office adopted GASB Statement No. 65 during fiscal year 2014. The Office currently has no deferred outflows or inflows.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 5. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In March 2012, the GASB issued Statement No. 66, Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and No. 62. This statement, which is effective for financial statements for periods beginning after December 15, 2012, amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The requirements of this Statement resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The adoption of GASB Statement No. 66 had no effect on the Office's financial statements.

In June 2012, the GASB issued Statement No. 67, Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25. This statement, which is effective for financial statements for periods beginning after June 15, 2013, replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The Office is a participant in the State of New Mexico's Public Employee Retirement Association (PERA). PERA as the plan's administrator implemented this new pronouncement during fiscal year 2014.

In April 2013, the GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. This statement, which is effective for financial statements for periods beginning after June 15, 2013, requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. The adoption of this pronouncement had no effect on the Office's financial statements.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6. NEW ACCOUNTING PRONOUNCEMENTS

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2014:

- GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. Upon adoption of this statement for the year ended June 30, 2015, the Statement of Net Position will include a material liability for pension participation in fiscal year 2015.
- GASB Statement No. 69, Government Combinations and Disposals of Government Operations
- GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68

The Office will implement the new GASB pronouncements in the fiscal year no later than the required effective date. The Office believes that GASB pronouncements 69 and 71 will not have a significant financial impact to the Office or in issuing its financial statements.

Note 7. STATE GENERAL FUND INVESTMENT POOL

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a “business unit by fund” level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled “Current State Diagnostic of Cash Control,” also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 7. STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

contracted third party with expertise in the Enterprise System Software used by the State. The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool.

The Department of Finance Administration (DFA), in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology and a contracted third party PeopleSoft Treasury expert, conducted a Cash Management Remediation Project (Remediation Project) with a goal of achieving "a point forward" reconciliation of cash, in February 2013. A DFA representative verbally indicated to the Office that the SHARE cash reconciliation process from February 2013 forward, is working for agencies like the Office that issue warrants through DFA. As of June 30, 2014, the old unreconciled items that occurred from July 1, 2006 through February 2013 remain unreconciled.

On March 15, 2013, the third party PeopleSoft Treasury expert provided DFA with an additional report titled "Approach to the Historical Reconciliation of Bank Transactions." This report describes three possible approaches to addressing the remaining reconciliation issue: (1) adjust balances only; (2) fully reconcile only the differences created from 2010 through the present that were created while Wells Fargo was the fiscal agent; or (3) fully reconcile the differences created: from 2002 through 2006 while Wells Fargo was the fiscal agent, from 2006 through 2010 while Bank of America was the fiscal agent and from 2010 through the present while Wells Fargo was again the fiscal agent. DFA is currently requesting a 3.2 million dollar supplemental appropriation to address the remaining reconciliation issues.

The Office of the Governor has developed the following internal control procedures to monitor the monthly change in the Office of the Governor Interest in General Fund Investment Pool account. The Office of the Governor inputs into an Excel spreadsheet all changes by total payroll, contractual and other cost expenses from the SHARE A611 trial balance report, to tie the various account balances back to the monthly Office of the Governor Interest in General Fund Investment Pool account. In addition, The Office receives very few deposits. Deposits are tied back to the original deposit documentation. Expenditures are recorded each month, and the related change in the accounts payable balances are included in the overall reconciliation of the Office of the Governor Interest in General Fund Investment Pool account. The Office of the Governor reviews the Office of the Governor journal entries to ensure that the resulting effect on Interest in General Fund Investment Pool and other account is the intended result. These processes that have been put into place by the Office of the Governor are the reasons that risk of misstatement of the Office of the Governor Interest in General Fund Investment Pool account has been mitigated to a low level of risk, even though there are significant problems with the statewide cash reconciliation process.

OTHER SUPPLEMENTAL SCHEDULES

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
SCHEDULE OF INTEREST IN STATE GENERAL FUND INVESTMENT POOL
June 30, 2014**

	<u>Fund Number</u>	<u>Book Balance</u>	<u>Current Status</u>
Operating Account	17600	<u>\$ 526,324</u>	Active

STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
SCHEDULE OF TRANSFERS
For the Year Ended June 30, 2014

	<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	\$ 3,587,100	-	State general fund appropriation
			<u>3,587,100</u>	<u>-</u>	
DFA - State General Fund	17600	85300	-	424,343	State General fund reversion
			<u>\$ 3,587,100</u>	<u>424,343</u>	

STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
SCHEDULE OF DUE TO STATE GENERAL FUND
June 30, 2014

Governmental Funds:	<u>Business Unit</u>	<u>SHARE Fund</u>	<u>Amount</u>	<u>Purpose</u>
	34101	85300	\$ 4,849	FY 13 reversion balance
	34101	85300	10	Stale dated warrant
	34101	85300	<u>424,343</u>	Current year reversion
			<u>\$ 429,202</u>	

COMPLIANCE SECTION

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
Mr. Hector H. Balderas
New Mexico State Auditor

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, major fund, and budgetary comparison of the general fund of the State of New Mexico Office of the Governor (Office) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated December 15, 2014.

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

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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as item 2014-001.

The Office's Response to Findings

The Office's responses to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Office's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Axiom CPAs and Business Advisors, LLC
December 15, 2014

OTHER DISCLOSURES

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
SCHEDULE FINDINGS AND RESPONSES
JUNE 30, 2014**

FINANCIAL STATEMENT FINDINGS - None

OTHER MATTERS REQUIRED TO BE COMMUNICATED

2004-001 Payroll compliance (Other Matter / compliance)

CONDITION – Out of 8 payees selected for payroll testing, the following exceptions were noted:

- Form I-9 was not on file for two payees;

CRITERIA: Pursuant to 1.7.1.12 NMAC, personnel files are required to contain certain documentation with respect to state employees payroll information

EFFECT: The Office did not comply with state requirements regarding personnel file maintenance.

CAUSE: Management did not maintain personnel files in a consistent manner, insuring that all documentation required to support payroll processing and staff employment was on file.

RECOMMENDATION: We recommend that management implement a process whereby all employee files are maintained in a consistent manner with all the necessary documentation on file.

OFFICE RESPONSE: We are in the process of the getting with the individuals that did not have the required I-9's on file for. We have reviewed all employees files to ensure that all required paperwork is on file and up to date.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
SCHEDULE FINDINGS AND RESPONSES
JUNE 30, 2014**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding #	Finding	Status
None		

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
EXIT CONFERENCE
JUNE 30, 2014**

Exit Conference

An exit conference was conducted on December 12, 2014 in closed session, in accordance with New Mexico statutes, with the following individuals:

Office of the Governor

Robyn Romero-Cardenas, CFO
Keith Gardner – Chief of Staff

Axiom Certified Public Accountants and Business Advisors, LLC

Chris Garner, CPA, Partner

Auditor Prepared Financial Statements

Axiom Certified Public Accountants and Business Advisors, LLC prepared the GAAP-basis financial statements, related footnotes and supporting schedules from the original books and records provided to them by the management of the Office. The responsibility for the financial statements remains with the Office.