

STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR

Annual Financial Report

June 30, 2016



AXIOM

*Certified Public Accountants
and Business Advisors LLC*

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Office of the Governor
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STATE OF NEW MEXICO
Office of the Governor
Official Roster
June 30, 2016

OFFICIAL ROSTER

Susana Martinez

Governor

Keith Gardner

Chief of Staff

FINANCIAL SECTION

Independent Auditor's Report

Honorable Susana Martinez, Governor
And
Mr. Timothy Keller
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, 2016, 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, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2016 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 financial statements, the individual fund statements, and the budgetary comparisons. 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 required by Section 2.2.2 NMAC 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.

The Schedule of Vendors has not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2016 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
November 23, 2016

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

**Management's Discussion and Analysis
June 30, 2016**

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, 2016. 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 \$67,134 (deficit net position). This is the direct result of the inclusion of compensated absences in the Statement of Net Position.
- The Office did not purchase capital assets during the fiscal year ended June 30, 2016. No capital assets were disposed of during the year ended June 30, 2016. The total value for all capital assets, including depreciation, as of June 30, 2016 is \$56,725.
- The Office stayed well within its budgets and did not exceed its total budget appropriation of \$3,573,100.
- Total expenses were \$3,223,656 or \$349,444 less than the total revenues \$3,573,100 for fiscal year ended June 30, 2016. The Office will revert \$382,033 to the State General Fund, which includes approximately \$29k from the prior year.

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.

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

**Management's Discussion and Analysis
June 30, 2016**

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 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, 2016**

Financial Analysis of the Office as a Whole:

Condensed Financial Information:

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

Governmental Activities	Current Year 2016	Prior Year 2015
Interest in State General Fund investment pool	\$ 513,854	532,003
Other Receivables	720	207
Capital Assets	56,725	66,184
Total Assets	571,299	598,394
Current liabilities	600,618	612,566
Noncurrent liabilities	37,815	50,129
Total Liabilities	638,433	662,695
Net investment in capital assets	56,725	66,184
Restricted	-	-
Unrestricted	(123,859)	(130,485)
Total Net Position	\$ (67,134)	(64,301)

As shown in Table A-1 the total assets for the Office of the Governor decreased from \$598,394 in fiscal year ended June 30, 2015 to \$571,299 in FY 2016 or by \$27,095. Current liabilities decreased from \$612,566 to \$600,618 or by \$11,948.

Net Position decreased from \$64,301 in FY 2015 to \$67,134. This decrease in net position is primarily the result of an increase in compensated absences in the amount of \$6,626 netted with depreciation expense of \$9,459 at June 30, 2016.

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

**Management's Discussion and Analysis
June 30, 2016**

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

Governmental Activities	Current Year 2016	Prior Year 2015
Revenues:		
<i>General revenue: State General Fund</i>	\$ 3,573,100	\$ 3,599,100
Miscellaneous Revenue	-	-
Total Revenues	<u>3,573,100</u>	<u>3,599,100</u>
Expenses:		
Executive Administration	3,214,197	3,403,788
Depreciation Expense	9,459	-
Total Expenses	<u>3,223,656</u>	<u>3,403,778</u>
Excess/(Deficiency) of revenues over expenses	349,444	195,312
Other financing uses:		
Reversions	(352,277)	(261,592)
Transfers out	-	-
Change in net position	<u>(2,833)</u>	<u>66,280</u>
Net position, beginning of year	<u>(64,301)</u>	<u>(130,581)</u>
Net position, end of year	<u>\$ 67,134</u>	<u>\$ (64,301)</u>

Table A-2 reflects the changes in the Statement of Activities from Fiscal Year 2016 to FY 2015. Total revenues saw a decrease of less than 1% over the prior fiscal year. State General Fund appropriations decreased by \$26,000. Expenses decreased by \$180,122 in the current year.

Budgetary Comparisons:

Final amounts budgeted in FY 2016 decreased from FY 2015, \$3,599,100 to \$3,573,100. This decrease is approximately 7%.

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

**Management's Discussion and Analysis
June 30, 2016**

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, 2016**

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Interest in State General Fund investment pool	\$ 513,854
Other Receivables	720
Total current assets	<u>514,574</u>
Noncurrent assets:	
Capital assets, net of depreciation	<u>56,725</u>
Total Assets	<u><u>571,299</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	44,762
Accrued Salaries	38,505
Payroll taxes payable	17,210
Other payroll liabilities	32,064
Due to State General Fund - PY	29,756
Due to State General Fund	352,277
Current portion of compensated absences	<u>86,044</u>
Total current liabilities	<u>600,618</u>
Noncurrent liabilities:	
Noncurrent portion of compensated absences	<u>37,815</u>
Total Liabilities	<u><u>638,433</u></u>
NET POSITION	
Net investment in capital assets	56,725
Unrestricted	<u>(123,859)</u>
Total Net Position	<u><u>\$ (67,134)</u></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, 2016**

	<u>Governmental Activities</u>
Expenses:	
Executive Administration	\$ 3,214,197
Depreciation expense - unallocated	9,459
	<u>3,223,656</u>
Revenues:	
Other financing sources	<u>-</u>
Net Program expense	<u>3,223,656</u>
Transfers:	
State General Fund appropriations	3,573,100
Reversion fiscal year 2015	<u>(352,277)</u>
Net Transfers	<u>3,220,823</u>
Change in Net Position	(2,833)
Net Position, beginning of year	<u>(64,301)</u>
Net Position, end of year	<u><u>\$ (67,134)</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, 2016

	<u>General Fund</u>
ASSETS	
Interest in State General Fund investment pool	\$ 513,854
Due from other governments	<u>720</u>
Total Assets	<u><u>\$ 514,574</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 44,762
Accrued salaries	38,505
Payroll taxes payable	17,210
Other payroll liabilities	32,064
Due to State General Fund	<u>382,033</u>
Total Liabilities	<u>514,574</u>
Fund balances:	
Unassigned	<u>-</u>
Total Liabilities and Fund Balance	<u><u>\$ 514,574</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, 2016**

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	\$ 93,624		
Accumulated depreciation	<u>(36,899)</u>		
Total capital assets			56,725
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>(123,859)</u>		
Total liabilities			<u>(123,859)</u>
Net Position of governmental activities		<u>\$</u>	<u>(67,134)</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, 2016

	<u>General Fund</u>
Expenditures:	
Current:	
Executive Administration	\$ 3,220,823
	<u>3,220,823</u>
Total expenditures	<u>3,220,823</u>
Excess (deficiency) of revenues over expenditures	<u>(3,220,823)</u>
Other financing sources (uses):	
State General Fund appropriation	3,573,100
Reversion fiscal year 2016	(352,277)
Other financing sources	<u>-</u>
Total other financing sources (uses)	<u>3,220,823</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, 2016**

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:	
Depreciation expense	(9,459)
Decrease in compensated absences	6,626
	<hr/>
Changes in Net Position in Governmental Activities	<u><u>\$ (2,833)</u></u>

STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (GAAP BASIS)
GENERAL FUND
For the Year Ended June 30, 2016

	General Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actuals	
	Original	Final		
Revenues:				
General Fund Appropriation	\$ 3,599,100	3,599,100	3,573,100	(26,000)
Other financing sources	-	-	-	-
	<u>3,599,100</u>	<u>3,599,100</u>	<u>3,573,100</u>	<u>(26,000)</u>
Total revenues and cash balance budgeted	<u>\$ 3,599,100</u>	<u>3,599,100</u>	<u>3,573,100</u>	<u>(26,000)</u>
Expenditures:				
Personal services and benefits	\$ 2,983,600	2,983,600	2,807,309	176,291
Contractual services	100,500	100,500	33,911	66,589
Other costs	<u>515,000</u>	<u>515,000</u>	<u>382,436</u>	<u>132,564</u>
Total expenditures	<u>\$ 3,599,100</u>	<u>3,599,100</u>	<u>3,223,656</u>	<u>375,444</u>
Excess revenues over expenditures			349,444	<u>-</u>
Items not budgeted:				
change in accruals				
Reversions fiscal year 2016			<u>(2,833)</u>	
Net changes in fund balance			<u>\$ -</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, 2016**

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, 2016**

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, 2016**

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, 2016**

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

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (continued)

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.

**STATE OF NEW MEXICO
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Capital Assets (continued)

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

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.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Fund Balance (Continued)

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.

5. 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. The office has no net position that is restricted by enabling legislation.

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 (\$123,859) is due to recognition of compensated absences which is uncorrectable in a reverting agency.

6. 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, 2016.

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, 2016.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. 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.

8. 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 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.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budgets and Budgetary Accounting (Continued)

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 (Section 8-6-3 NMSA 1978) 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.

Investments in the State Treasurer General Fund Investment Pool (SGFIP) and bank account balances are reported at carrying amount which reasonably estimates fair value. Interest in State General Fund Investment Pool at June 30, 2016 was \$513,854.

**STATE OF NEW MEXICO
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)

A. Interest in the State General Fund Investment Pool (continued)

Interest Rate Risk for Investments

The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk for Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The General Fund Investment Pool is not rated for credit risk.

Custodial Credit Risk-Deposit

The Office of the State Treasurer (STO) monitors the collateral for deposits it holds, which would include the investment accounts of the Office. Therefore, collateralization of the Office's accounts is the responsibility of the STO. The STO has its own separate annual independent audit in which the collateral pledged to secure these deposits is disclosed. By law, the Office is not permitted to have any investments other than what is held at the State Treasurer's Office and the Office did not have any other investments during the year ended June 30, 2016. There is no custodial risk at the Office's level since the Office's investments are under the contract of the Office of the State Treasurer.

For further information regarding the GFIP, please see the State Treasurer's annual audit report and specifically refer to the GASB 40 disclosure of the investments. That report may be obtained by writing to the New Mexico State Treasurer's Office, P.O. Box 608, Santa Fe, NM 87504-0708.

State General Fund Investment Pool

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)

A. Interest in the State General Fund Investment Pool (continued)

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006, through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I the Department of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation. The claims to resources reconciliation process has been successfully applied to fiscal year-end 2014 and the months from January 2015 through June 2015. While work remains, the results are encouraging and the following assertions can be made:

1. The calculated difference between resource maintained by the State Treasurer's Office and the agency claims has remained stable and within a narrow and acceptable range (<\$200K standard deviation) over the last 12 months.
2. Resources are sufficient to cover claims and there is no need to adjust any specific business unit claims on the SFGIP
3. All claims will be honored at face value.

As part of the Office's cash controls, all incoming funds and outgoing disbursements are tracked to ensure transactions are properly entered into SHARE and posted to the general ledger. Additionally at year end, the Office performs a cash analysis on all funds to ensure the activity affecting the cash accounts properly reflect the ending balances at year-end. The Office also does not issue third party disbursements that may materially affect the Office's financial statements.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3. DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

<u>Cost</u>	<u>Balance 6/30/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2016</u>
Office Equipment	\$ 68,319	-	-	68,319
Furniture	25,305	-	-	25,305
	<u>93,624</u>	<u>-</u>	<u>-</u>	<u>93,624</u>
<u>Accumulated Depreciation</u>				
Office Equipment	(2,135)	(9,459)	-	(11,594)
Furniture	(25,305)	-	-	(25,305)
Net book value	<u>\$ 66,184</u>	<u>(9,459)</u>	<u>-</u>	<u>56,725</u>

The Office does not have any debt related to capital assets. Depreciation expense for the year was \$9,459.

C. Accounts Payable

Accounts payable of \$44,762 represents expenditures incurred as of June 30, 2016 but not paid until fiscal year 2017.

D. Due to State General Fund

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

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Compensated Absences

The following is a summary of the changes in compensated absences:

				Due Within One Year	Due Over One Year	
Balance 6/30/2015	Increase	(Decrease)	Balance 6/30/2016			
\$ 130,485	142,484	(149,110)	123,859	86,044	37,815	
Totals	\$ 130,485	142,484	(149,110)	123,859	86,044	37,815

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 future commitments for lease obligations in the following amounts:

Fiscal Year	Postage Machine	Other Equip.	Vehicle	Total of Leases
2017	\$ -	2,987	-	2,987
Totals	\$ -	2,987	-	2,987

Equipment rental expenditures for the year ended June 30, 2016 were \$13,312.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4. OTHER INFORMATION

Pension Plan – Public Employees Retirement Association

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

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

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

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, 2016**

NOTE 4. OTHER INFORMATION (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, 2016**

NOTE 4. OTHER INFORMATION (CONTINUED)

Post-Employment Benefits – State Retiree Health Care Plan (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, 2016, 2015 and 2014 were \$36,878, \$36,889, and \$36,022, respectively, which equal the required contributions for each year.

NOTE 5. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2012, the GASB issued Statement No.68, Accounting and Financial Reporting for Pensions — an amendment of GASB Statement 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The Office provides substantially all of its employees with pension benefits through the state's multiple employer cost-sharing defined-benefit retirement plan administered by the Public Employees Retirement Association of New Mexico (PERA). GASB Statement 68 requires cost-sharing employers participating in the PERA program, such as the Office, to record their proportionate share, as defined in GASB Statement 68, of Office's unfunded pension liability. The Office has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA. GASB Statement 68 is effective for periods beginning after June 15, 2014. The Office adopted GASB Statement No.68 during fiscal year 2015. The requirement of GASB Statement 68 to record a portion of PERA's unfunded liability has negatively impacted the Office's unrestricted net position. Information regarding PERA's current funding status can be found in their financial report.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In November 2013, the GASB issued statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68. Statement No. 68 requires a state or local government employer to recognize a net pension liability measured as of the measurement date, no earlier than the end of its prior fiscal year. If a state or local government employer makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government’s reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. If it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition.

Accordingly, Statement No. 71 amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The Office adopted GASB Statement No.71 during fiscal year 2015.

In June 2015, the GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. Statement No. 76, which supersedes Statement No. 55, aims to identify, in the context of the current governmental financial reporting environment, the hierarchy of U.S. GAAP, which consists of the sources of accounting principles used to prepare the financial statements of state and local governments entities in conformity with U.S. GAAP, as well as the framework for selecting those principles. The Office adopted GASB Statement No. 76 during fiscal year 2015, with no significant impact to the Office’s financial statements.

NOTE 6. NEW ACCOUNTING PRONOUNCEMENTS

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2016.

GASB Statement No. 72, *Fair Value Measurement and Application*

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*

GASB Statement No. 78, *Pensions Provided through certain Multiple-Employer Defined Benefit Pension Plans*

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

GASB Statement No. 80, *Blending Requirements for Certain Units – an amendment to GASB Statement No. 14*

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*

GASB Statement No. 82, *Pension Issues (an Amendment of GASB Statements No. 67, No. 68, and No.73)*

The Office will implement the new GASB pronouncements in the fiscal year no later than the required effective date. The Office believes that the above listed new GASB pronouncements 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 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.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7. STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

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's 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.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8. JOINT POWERS AGREEMENT

During the year, the Office entered into a joint powers agreement with the New Mexico Gaming Control Board for the purpose of assisting in the negotiations of certain tribal gaming compacts. There were no expenses incurred by the Office for this agreement in fiscal year 2016. This agreement terminated on June 30, 2016.

NOTE 9. RISK MANAGEMENT

The Office of the Governor is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Section 15-7-2 NMSA 1978 requires the General Services Department, Risk Management Division (RMD) to be responsible for the acquisition and administration of all insurance purchased by the state. Since 1977, various state statutes have been passed which allow RMD to insure, self-insure or use a combination of both. Any claims are processed through RMD. Coverage is provided for General Liability, Surety Bond, Property and Workers Compensation. There are no pending or known threatened legal proceedings involving material matters to which the Office is a party.

NOTE 10. OFF BALANCE SHEET BANK ACCOUNT

In accordance with NMSA 1978 section 10-8-5, the New Mexico Legislature has established a contingency fund that is maintained in a separate bank account ("Governor's Contingency Fund") that is not included in the Balance Sheet of the Office. The balance in this account was \$65,697 at June 30, 2016. In accordance with NMSA 1978 section 10-8-5, these funds are to be used only for purposes connected with obligations of the Office and are not subject to audit. Therefore, these funds have not been audited.

SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
SCHEDULE OF INTEREST IN STATE GENERAL FUND INVESTMENT POOL
June 30, 2016**

	<u>Fund Number</u>	<u>Book Balance</u>	<u>Current Status</u>
Operating Account	17600	<u>\$ 513,854</u>	Active

STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
SCHEDULE OF TRANSFERS
For the Year Ended June 30, 2016

	<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	<u>\$ 3,573,100</u> <u>3,573,100</u>	<u>-</u> <u>-</u>	State general fund appropriation
DFA - State General Fund	17600	85300	<u>-</u>	<u>352,277</u>	State General fund reversion
			<u><u>\$ 3,573,100</u></u>	<u><u>352,277</u></u>	

STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
SCHEDULE OF DUE TO STATE GENERAL FUND
June 30, 2016

Governmental Funds:	<u>Business Unit</u>	<u>SHARE Fund</u>	<u>Amount</u>	<u>Purpose</u>
	34101	85300	\$ 6	Stale dated warrant
	34101	85300	29,750	FY 2015 reversion
	34101	85300	<u>352,277</u>	Current year reversion
			<u>\$ 382,033</u>	

ADDITIONAL SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
SCHEDULE OF VENDORS
(EXCLUDING GRT)
FOR THE YEAR ENDED JUNE 30, 2016

<i>RFB#/RFP #</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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. Timothy Keller
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, 2016, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated November 23, 2016.

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 any 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 an instance 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 2015-001.

Office's Responses to Findings

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

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.

The logo for Axiom, featuring the word "Axiom" in a blue, cursive script font.

Axiom CPAs and Business Advisors, LLC
November 23, 2016

OTHER DISCLOSURES

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
SCHEDULE FINDINGS AND RESPONSES
JUNE 30, 2016**

FINANCIAL STATEMENT FINDINGS

2015-001 – Late reversion of funds (Compliance and Other Matter)

Condition: The Governor’s contingency fund was not reverted to the State General Fund until shortly after the deadline. Progress has been made as the amount was reverted, however, the reversion occurred after the due date.

Criteria: Pursuant to 6-5-10(A) NMSA 1978, “...All unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central financial reporting and accounting system as of June 30 shall revert by September 30 to the general fund.” Section 3(D) of the General Appropriation Act states unexpended balances in agency accounts remaining at the end of a fiscal year shall revert to the general fund unless otherwise indicated in the General Appropriation Act or otherwise provided by law.

Cause: The Office had a contingency fund established pursuant to NMSA 1978, 10-8-5(C) which contained unspent monies at year end that were not reverted by the due date.

Effect: The Office maintained custody of public funds that should have been reverted to the State General Fund for re-appropriation to other purposes.

Recommendation: We recommend that the Office create policies and procedures to ensure that all unspent funds are reverted to the General Fund on an annual basis.

Management Response: The New Mexico Constitution, art. V, § 1, designates the executive officers of the State, and specifically includes the “state auditor”; however, it is silent with respect to any duties of that office. The Legislature has established powers and, consequently, the limitations, for the state auditor. See generally *Torres v. Grant*, 63 N.M. 106 (1957); see also *State v. Davidson*, 33 N.M. 664 (1929); N.M. Att’y Gen. Op. 92-06. Specifically, the Legislature has provided in NMSA 1978, Section 10-8-5(C), that contingent funds are to be used only for purposes connected with the obligations of the office and are “not subject to audit.”

Contingency funds have been used for more than one hundred years and, in fact, predate the Enabling Act of 1910, 36 Stat. 557, which granted New Mexico its statehood. An aspect of the contingency fund that has remained, virtually, unchanged by the Legislature over the years is the fact that it is not subject to audit. See for example, Laws 1977, ch. 247, § 2 (1953 Comp., § 5-10-3.1); 1978, ch. 184, § 4; 1979, ch. 273, § 4; 1984, ch. 28 § 3; 1989, ch. 338, § 3.

The contingency fund has not been an account subject to reversion pursuant to Section 3 (D) of the General Appropriations Act. It is, by statute, defined as a contingency fund and, historically, every state auditor (including the current one), governor, department of finance and administration, and legislature has treated it as such.

In an unprecedented move, this auditor has reversed his position regarding this “issue” in the agency’s Fiscal Year 2015 audit, although in the previous year’s audit he did not make a similar notation.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
SCHEDULE FINDINGS AND RESPONSES
JUNE 30, 2016**

FINANCIAL STATEMENT FINDINGS (CONTINUED)

2015-001 – Late reversion of funds (Compliance and Other Matter) (Continued)

No other state statute or law makes reference to contingency expenses. As recognized in Note 10 of the Fiscal Year 2015 audit for the Office of the Governor, and in management’s response therein, this is an “off balance sheet bank account.” The time tested practice, based upon the advice of the Department of Finance and Administration (“DFA”), has been that the office’s contingency account does not revert until the end of a governor’s term.

In Fiscal Year 2016, the agency, although not required by law, voluntarily reverted the unexpended balance of the contingency fund.

Responsible Party: The Communications Director & Records Administrator.

Timeline to Correct: The funds have been reverted as of the date of this report.

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
SCHEDULE FINDINGS AND RESPONSES
JUNE 30, 2016**

OTHER MATTERS REQUIRED TO BE COMMUNICATED

None

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding #	Finding	Status
2015-001	Timely reversion of funds (Compliance and Other matter)	Repeated

**STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
EXIT CONFERENCE
JUNE 30, 2016**

Exit Conference

An exit conference was conducted on December 1, 2016, in closed session, in accordance with New Mexico statutes, with the following individuals:

Office of the Governor

Julia Ruetten, Communications Director & Records Administrator
Keith Gardner – Chief of Staff
Steven Blankenship, General Counsel

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.