



LOFTIS GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS ADVISORS



Office of the Governor

MICHELLE LUJAN GRISHAM

Financial Statements,
and
Independent Auditor's Reports,
June 30, 2019

State of New Mexico Office of the Governor

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State of New Mexico Office of the Governor

Official Roster

Administrative Officials

Name	Title
Michelle Lujan Grisham	Governor (as of January 2019)
Susana Martinez	Governor (through January 2019)
Teresa Casados	Chief Operation Officer (as of January 2019)
Keith Gardner	Chief of Staff (through January 2019)
Cyndi Montoya	Chief Financial Officer (as of March 2019)
Betty Garcia	Chief Financial Officer (through March 2019)

Independent Auditor's Report

The Honorable Michelle Lujan Grisham, Governor
and
Mr. Brian S. Colón, Esq., New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the budgetary comparisons for the general fund and major special revenue fund of the State of New Mexico, Office of the Governor (the "Office"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 Office'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 Office'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 each major fund of the Office as of June 30, 2019, and the respective changes in financial position and budgetary comparisons of the general fund and major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Office are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of the Office that is attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2019, the changes in its financial position, or where applicable, its cash flows 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 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2019, on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

Loftis Group LLC

Albuquerque, New Mexico
October 25, 2019

Management's Discussion and Analysis

State of New Mexico
Office of the Governor
Management's Discussion and Analysis
For the Year Ended June 30, 2019

This section of the financial report presents management's discussion and analysis (MD&A) of the Office of the Governor's (the "Office") financial performance during the year ended June 30, 2019. Please read it in conjunction with the Office's financial statements, which follow this section.

Financial Highlights

- ◆ The liabilities of the Office exceeded its assets at June 30, 2019, by \$40,607 (deficit net position). This compares to deficit net position of the Office of \$89,334 at June 30, 2018.
- ◆ Virtually all of the Office's revenues during fiscal years 2019 and 2018 were from general fund appropriations.
- ◆ Total expenses of the Office in fiscal years 2019 and 2018 were \$3.3 million and \$2.9 million, respectively. All expenses in fiscal year 2019 were well within the Office's approved budgets.

Overview of the Financial Report

The Office's financial statements are comprised of three components: 1) *Management's Discussion and Analysis* (this section), 2) the *Basic Financial Statements*, and 3) *Compliance Section*. The basic financial statements include two kinds of statements (Office-wide financial statements and fund financial statements) that present different views of the Office.

The first two statements, the statement of net position and the statement of activities, are *Office-wide financial statements* that provide both long-term and short-term information about the Office's overall financial status. *Fund financial statements* report the Office's operations in more detail than the Office-wide statements by providing information about the Office's most significant funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detail. The financial statements are followed by a *Compliance Section* that presents the Office's schedule of findings and responses and a schedule presenting the current year status of prior year audit findings (if any).

Office-Wide Financial Statements

The statement of net position and the statement of activities report information about the Office as a whole. All of the Office's executive administration activities are reported as governmental activities. These activities are financed primarily through general fund appropriations. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

State of New Mexico
Office of the Governor
Management's Discussion and Analysis
For the Year Ended June 30, 2019

These two statements report the Office's net position and changes in net position. You can think of the Office's net position, the difference between assets and liabilities, as one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as influences from other state or federal agencies, should be considered in addition to net position in measuring the Office's financial health.

Fund Financial Statements

The fund financial statements provide detailed information about the Office's most significant funds – not the Office as a whole. Separate funds are established by the Office to help control and manage revenues and expenditures for particular purposes or to show that the Office is meeting legal responsibilities for using certain money. Additionally, separate funds are maintained to protect against the possibility of co-mingling funds. Prior to January 1, 2019, the Office reported all activities in its general fund. Effective January 1, 2019, Senate Bill 52 of the 2018 regular Legislative Session created the Governor's contingency fund in the State Treasury. Therefore, for the year ended June 30, 2019, the Office reports activities in its general fund and in the contingency fund, which are considered governmental funds.

Governmental funds focus on how cash and other financial assets flow in and out, with the balances that are left at year-end available for future spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Consequently, the governmental fund financial statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Office's programs. Because this information does not encompass the additional long-term focus of the Office-wide financial statements, we provide additional information at the bottom of the governmental funds financial statements that explains the relationship (or differences) between the amounts reported in the statement of net position and the statement of activities and the governmental funds financial statements.

Budgetary comparison schedules, or the Statement of Revenue and Expenditures - Budget and Actual (on the Office's budgetary basis), reports the original approved budget, final approved budget, and actual results presented on a budgetary basis of accounting for the Office's governmental funds. A separate column is presented to report variances between the final approved budget and actual amounts.

State of New Mexico
Office of the Governor
Management's Discussion and Analysis
For the Year Ended June 30, 2019

Office-Wide Financial Analysis

Net Position. Table 1 reflects the condensed statement of net position as of June 30, 2019 and 2018.

TABLE 1
CONDENSED STATEMENT OF NET POSITION

	2019	2018
Assets		
Current assets	\$ 221,404	\$ 240,052
Capital assets, net	<u>27,559</u>	<u>37,018</u>
Total assets	<u>248,963</u>	<u>277,070</u>
Liabilities		
Current liabilities	171,402	242,197
Compensated absences	<u>118,168</u>	<u>124,207</u>
Total liabilities	<u>289,570</u>	<u>366,404</u>
Net Position (Deficit)		
Net investment in capital assets	27,559	37,018
Unrestricted (deficit)	<u>(68,166)</u>	<u>(126,352)</u>
Net position (deficit)	<u>\$ (40,607)</u>	<u>\$ (89,334)</u>

The Office's current assets are made up primarily of cash of \$221,374. The Office's other significant asset is capital assets, which had a balance of \$27,559, net of accumulated depreciation, at June 30, 2019.

The Office's current liabilities are primarily made up of accounts payable of \$52,560 as well as payroll liabilities of \$237,010. This includes accrued salaries, payroll taxes and benefits, as well as annual leave earned by employees but not yet paid (compensated absences) as of June 30, 2019.

State of New Mexico
Office of the Governor
Management's Discussion and Analysis
For the Year Ended June 30, 2019

Changes in Net Position. Table 2 summarizes the Office's changes in net position for the years ended June 30, 2019 and 2018.

TABLE 2
CONDENSED STATEMENT OF ACTIVITIES

	2019	2018
Expenses		
Executive administration	<u>\$ (3,300,261)</u>	<u>\$ (2,898,382)</u>
Total expenses	<u>(3,300,261)</u>	<u>(2,898,382)</u>
Revenues and Transfers		
Charges for services	19	-
General fund appropriation	3,376,600	3,260,000
Interagency transfers	38,548	-
Reversions	<u>(66,179)</u>	<u>(397,508)</u>
Total general revenues and transfers	<u>3,348,988</u>	<u>2,862,492</u>
Change in net position	<u><u>\$ 48,727</u></u>	<u><u>\$ (35,890)</u></u>

During fiscal year 2019, net position increased by \$48,727. The increase was primarily due to a special appropriation received in fiscal year 2019 for a review of the Children's Code. This appropriation is available through fiscal year 2020 and no expenditures were incurred against this appropriation in fiscal year 2019. Almost all of the Office's general revenues are made up of general fund appropriations, which totaled \$3.4 million and \$3.3 million in fiscal year 2019 and 2018, respectively.

Expenses totaled \$3.3 million and \$2.9 million during fiscal years 2019 and 2018, respectively. The Office's expenses were incurred primarily in the area of personal services and benefits, comprising 83% of total expenses during fiscal years 2019 and 2018, respectively.

Financial Analysis of the Office's Governmental Funds

The focus of the Office's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. For the year ended June 30, 2019, the Office's governmental funds reported total revenues of \$3.4 million and expenditures of \$3.3 million. Most of this activity was reported in the general fund. Revenues were earned almost entirely from general fund appropriations, and expenditures were incurred for executive administration. As of June 30, 2019, the general fund reported ending fund balances of \$50,002 and the contingency fund reported fund balances of \$0.

State of New Mexico
Office of the Governor
Management's Discussion and Analysis
For the Year Ended June 30, 2019

Budgetary Highlights

The Office's approved budget totaled \$3,379,200 for the general fund and \$36,000 for the contingency fund. The general fund budget represents an increase of \$155,200 when compared to the approved budget from fiscal year 2018, which is mainly caused by supplemental and special appropriations received by the Office in fiscal year 2019. Actual budgetary basis expenditures for the general fund in fiscal year 2019 totaled \$3,261,379, representing a positive variance of \$65,640. Actual budgetary basis expenditures for the contingency fund in fiscal year 2019 totaled \$35,462, representing a positive variance of \$538. These excess amounts were reverted back to the State General Fund as required under the General Appropriations Act.

Capital Assets

As of June 30, 2019, the Office reported capital assets of \$27,559, net of depreciation, representing office equipment and furniture of the Office. See Note 4 to the basic financial statements for more details about capital asset activity during fiscal year 2019.

Compensated Absences

At June 30, 2018, the Office's compensated absences liability totaled \$118,168. See Note 5 to the basic financial statements for more details about compensated absences activity.

Economic Factors Affecting the Next Fiscal Year's Budget

According to the August 2019 consensus revenue estimate, fiscal year 2019 recurring revenue is expected to have grown by 16.2% to over \$7.9 billion, while year-end financial reserves are estimated to be 26.9% of recurring appropriations. The growth in the revenue estimate is due to the increased oil and natural gas productions and the related revenues (both direct severance and direct gross receipts tax receipts from the industry) in fiscal year 2019 added to growth in personal and corporate income taxes and earnings on state balances.

Oil and natural gas related growth, including severance, federal mineral leasing bonus and royalty payments and gross receipts tax revenue growth associated with oil exploration, is expected to be the largest driver of General Fund revenue growth in fiscal year 2020. Non-energy related growth in gross receipts tax is also expected as the Rio Grande corridor is expected to continue to see moderate growth. Distributions from the Permanent Funds are also expected to contribute to growth, increasing general fund revenue by an estimated \$35 million in fiscal year 2020 due to a higher average 5-year market value driven by fund growth. Fiscal year 2020 ending reserves are projected to be \$2,269 million or 32% of recurring appropriations if no additional fiscal year 2020 supplemental or special appropriations are made mid-year during the 2020 legislative session.

State of New Mexico
Office of the Governor
Management's Discussion and Analysis
For the Year Ended June 30, 2019

Requests for Information

This financial report is designed to provide a general overview of the Office's finances and to provide accountability for funds the Office receives. If you have any questions about this report, or need additional financial information, contact:

Office of the Governor
State Capitol Building, Suite 400
Santa Fe, New Mexico 87501

Basic Financial Statements

Office-Wide Financial Statements

State of New Mexico
Office of the Governor
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>
Assets	
Current assets	
Interest in State General Fund Investment Pool	\$ 221,374
Accounts receivable	<u>30</u>
Total current assets	221,404
Capital assets, net	<u>27,559</u>
Total assets	<u>248,963</u>
Liabilities	
Current liabilities	
Accounts payable	52,560
Accrued payroll	56,281
Accrued payroll taxes and benefits	62,561
Compensated absences	<u>118,168</u>
Total current liabilities	<u>289,570</u>
Net Position (Deficit)	
Net investment in capital assets	27,559
Unrestricted (deficit)	<u>(68,166)</u>
Total net position (deficit)	<u>\$ (40,607)</u>

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

State of New Mexico
Office of the Governor
Statement of Activities
For the Year Ended June 30, 2019

	<u>Governmental Activities</u>
Program Revenues	
Charges for services	\$ 19
Total program revenues	<u>19</u>
Expenses	
Executive administration	\$ 3,300,261
Total expenses	<u>3,300,261</u>
Excess (deficiency) of revenues over expenses	<u>(3,300,242)</u>
General Revenues and Transfers	
General fund appropriation	3,376,600
Interagency transfers	38,548
Reversions - fiscal year 2019	<u>(66,179)</u>
Total general revenues and transfers	<u>3,348,969</u>
Change in net position	48,727
Net position (deficit), beginning of year	<u>(89,334)</u>
Net position (deficit), end of year	<u><u>\$ (40,607)</u></u>

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

Governmental Funds Financial Statements

State of New Mexico
Office of the Governor
Balance Sheet – Governmental Funds and
Reconciliation to the Statement of Net Position
June 30, 2019

	<u>17600</u> General Fund	<u>20820</u> Contingency Fund	<u>Total</u> Governmental Funds
Assets			
Interest in State General Fund Investment Pool	\$ 203,421	\$ 17,953	\$ 221,374
Accounts receivable	30	-	30
Total assets	<u>\$ 203,451</u>	<u>\$ 17,953</u>	<u>\$ 221,404</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 34,607	\$ 17,953	\$ 52,560
Accrued payroll	56,281	-	56,281
Accrued payroll taxes and benefits	<u>62,561</u>	<u>-</u>	<u>62,561</u>
Total liabilities	<u>153,449</u>	<u>17,953</u>	<u>171,402</u>
Fund balances			
Restricted	<u>50,002</u>	<u>-</u>	<u>50,002</u>
Total fund balances	<u>50,002</u>	<u>-</u>	<u>50,002</u>
Total liabilities and fund balances	<u>\$ 203,451</u>	<u>\$ 17,953</u>	<u>\$ 221,404</u>
Total fund balances - governmental funds			\$ 50,002
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 governmental funds			
Governmental capital assets		88,936	
Less accumulated depreciation		<u>(61,377)</u>	
			27,559
Some liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			<u>(118,168)</u>
Net position - governmental activities			<u>\$ (40,607)</u>

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

State of New Mexico
Office of the Governor
Statement of Revenues, Expenditures, and
Changes in Fund Balance – Governmental Funds and
Reconciliation to the Statement of Activities
For the Year Ended June 30, 2019

	<u>17600</u> General Fund	<u>20820</u> Contingency Fund	<u>Total</u> Governmental Funds
Revenues			
Charges for services	\$ 19	\$ -	\$ 19
Total revenues	<u>19</u>	<u>-</u>	<u>19</u>
Expenditures			
Executive administration	<u>3,261,379</u>	<u>35,462</u>	<u>3,296,841</u>
Total expenditures	<u>3,261,379</u>	<u>35,462</u>	<u>3,296,841</u>
Excess (deficiency) of revenues over expenditures	<u>(3,261,360)</u>	<u>(35,462)</u>	<u>(3,296,822)</u>
Other Financing Sources (Uses)			
General fund appropriation	3,340,600	36,000	3,376,600
Interagency transfers	38,548	-	38,548
Reversions - fiscal year 2019	<u>(65,641)</u>	<u>(538)</u>	<u>(66,179)</u>
Total other financing sources (uses)	<u>3,313,507</u>	<u>35,462</u>	<u>3,348,969</u>
Net change in fund balances	52,147	-	52,147
Fund balances (deficit), beginning of year	<u>(2,145)</u>	<u>-</u>	<u>(2,145)</u>
Fund balances, end of year	<u>\$ 50,002</u>	<u>\$ -</u>	<u>\$ 50,002</u>
Net change in fund balances - governmental funds			\$ 52,147
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:			
Capital outlay		-	
Depreciation expense		<u>(9,459)</u>	(9,459)
Compensated absences are expensed as used in the governmental funds; however, they are expensed as earned on the statement of activities.			<u>6,039</u>
Change in net position - governmental activities			<u>\$ 48,727</u>

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

State of New Mexico
Office of the Governor
Statement of Revenues and Expenditures – Budget and Actual
(Budgetary Basis) – General Fund
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<i>Appropriation Program Code: P637</i>				
Revenues				
General fund appropriation	\$ 3,226,600	\$ 3,190,600	\$ 3,190,600	\$ -
Compensation package appropriation	36,400	36,400	36,400	-
Other	-	-	19	19
Total revenues	<u>3,263,000</u>	<u>3,227,000</u>	<u>3,227,019</u>	<u>19</u>
Expenses				
Personal services and benefits	2,816,400	2,771,400	2,730,869	40,531
Contractual services	86,100	86,100	78,651	7,449
Other	360,500	369,500	351,859	17,641
Total expenses	<u>3,263,000</u>	<u>3,227,000</u>	<u>3,161,379</u>	<u>65,621</u>
<i>Appropriation Program Code: ZD6013</i>				
Revenues				
Deficiency appropriation	<u>2,200</u>	<u>2,200</u>	<u>2,148</u>	<u>(52)</u>
Total revenues	<u>2,200</u>	<u>2,200</u>	<u>2,148</u>	<u>(52)</u>
Expenses				
Transfers	<u>2,200</u>	<u>2,200</u>	<u>2,148</u>	<u>52</u>
Total expenses	<u>2,200</u>	<u>2,200</u>	<u>2,148</u>	<u>52</u>
<i>Appropriation Program Code: ZD6015</i>				
Revenues				
Supplemental appropriation	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Total revenues	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Expenses				
Personal services and benefits	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Total expenses	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>

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

State of New Mexico
Office of the Governor
Statement of Revenues and Expenditures – Budget and Actual
(Budgetary Basis) – General Fund – continued
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<i>Appropriation Program Code: ZD9421</i>				
Revenues				
Special appropriation	50,000	50,000	50,000	-
Total revenues	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Expenses				
Contractual services	50,000	50,000	-	50,000
Total expenses	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>-</u>	<u>\$ 50,000</u>
Excess (deficiency) of revenues over expenditures			115,640	
Reconciliation to GAAP basis:				
Reversions - fiscal year 2019			(65,641)	
Over-reversion in fiscal year 2018			<u>2,148</u>	
Net change in fund balance			<u>\$ 52,147</u>	

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

State of New Mexico
Office of the Governor
Statement of Revenues and Expenditures – Budget and Actual
(Budgetary Basis) – Contingency Fund
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
<i>Appropriation Program Code: P637</i>				
Revenues				
General fund appropriation	\$ -	\$ 36,000	\$ 36,000	\$ -
Total revenues	-	36,000	36,000	-
Expenses				
Other	-	36,000	35,462	538
Total expenses	-	36,000	35,462	538
Excess (deficiency) of revenues over expenditures			538	
Reconciliation to GAAP basis:				
Reversions - fiscal year 2019			(538)	
Net change in fund balance			\$ -	

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

State of New Mexico
Office of the Governor
Notes to the Financial Statements
June 30, 2019

1) History and Organization

The Office of the Governor (Office) was created by the Constitution of New Mexico, Article V, Section 1 as adopted January 21, 1921, and subsequently amended by the people in General and Special Elections from 1922 through 1984. Article V, Section 4 vests in the Governor supreme executive power in the State and charged 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.

Financial Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 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.

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 in the financial data of the State. The Office has no component units that are required to be reported in its own financial statements.

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.

State of New Mexico
Office of the Governor
Notes to the Financial Statements
June 30, 2019

2) Summary of Significant Accounting Principles

Accounting Standards

The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The GASB is the standard-setting body for governmental accounting and financial reporting. GASB standards and interpretations constitute GAAP for governments.

Basis of Presentation

Office-Wide Financial Statements. The Office-wide financial statements include a statement of net position and a statement of activities. These statements present information about the Office as a whole. These statements include the financial activities of the overall entity, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements present the governmental activities of the Office. Governmental activities generally are financed through general fund appropriations.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Office's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. Indirect expenses are allocated to program/functions that they benefit.

Fund Financial Statements. The fund financial statements provide information about the Office's funds. Separate statements for each fund category: governmental, proprietary and fiduciary are displayed, as applicable. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as other funds. The Office reports the following major governmental funds:

- ◆ *General Fund (SHARE Fund 17600)* – is the Office's primary operating fund. It is used to account for all financial resources except those required to the accounted for in another fund. The Office's general fund is a reverting fund.
- ◆ *Contingency Fund (SHARE Fund 20820)* – effective January 1, 2019, Senate Bill 52 of the 2018 regular Legislative Session created the contingency fund in the State Treasury. This fund is used to account for obligations of the elected office of the Governor. The contingency fund is a reverting fund.

State of New Mexico
Office of the Governor
Notes to the Financial Statements
June 30, 2019

2) Summary of Significant Accounting Principles – continued

Measurement Focus and Basis of Accounting

Office-Wide Financial Statements. The statement of net position and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Office gives (or receives) value without directly receiving (or giving) equal value in exchange include grants, entitlements and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which eligibility requirements have been satisfied.

Fund Financial Statements. Governmental funds are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Office considers all revenues reported in the general fund to be available if the revenues are collected within sixty days after year-end.

Expenditures are recorded when the related fund liability is incurred. However, principal and interest on general long-term liabilities and claims and judgments are recorded as fund liabilities and expenditures when they are due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term liabilities and acquisitions under capital leases are reported as other financing sources.

Revenue Recognition

State general fund appropriations are susceptible to accrual under the modified accrual basis of accounting, and are deemed both measurable and available if collected within the current fiscal year or sixty days after the end of the fiscal year.

Interest in the State General Fund Investment Pool

All funds allotted to the Office are appropriated from the State General Fund. These monies are held on deposit with the State Treasurer and are pooled and invested by the State Treasurer's Office. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits. See Note 3 for additional information.

Capital Assets

According to Section 12-6-10 NMSA 1978, capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

State of New Mexico
Office of the Governor
Notes to the Financial Statements
June 30, 2019

2) Summary of Significant Accounting Principles – continued

Depreciation on all capital assets is provided using the straight-line basis over the estimated useful lives of the assets, which range from five to ten years.

Compensated Absences

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 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 and up to 720 hours, not to exceed 120 hours. In the case of retiring employees, they may be paid for 50 percent of accrued sick leave in excess of 600 hours, up to 1,000 hours not to exceed 400 hours. The Office had no employees with excess accrued sick leave at June 30, 2019.

Net Position and Fund Balance

In the Office-wide financial statements, net position is classified into the following categories:

- ◆ *Net investment in capital assets* – Consists of capital assets, net of accumulated depreciation and outstanding principal balances attributable to the acquisition, construction, or improvement of those assets;
- ◆ *Restricted* – Results when constraints placed on an assets use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation;
- ◆ *Unrestricted* – Consists of net position that does not meet the definition of the two preceding categories.

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Office classifies fund balance primarily on the extent to which the Office is bound to observe constraints imposed on the use of the resources reported in governmental funds. This statement provides the following classifications:

- ◆ *Nonspendable* – Amounts that cannot be spent either because they are not in a spendable form (such as prepaid expenditures) or because they are legally or contractually required to be maintained intact.
- ◆ *Restricted* – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

State of New Mexico
Office of the Governor
Notes to the Financial Statements
June 30, 2019

2) Summary of Significant Accounting Principles – continued

- ◆ *Committed* – Amounts constrained to specific purposes by the Office itself, using agency head approval; to be reported as committed, amounts cannot be used for any other purpose unless the Office’s agency head takes the same action to remove or change the constraint;
- ◆ *Assigned* – Amounts the Office intends to use for a specific purpose; intent can be expressed by the Office’s agency head or by an official or body to which the agency head delegates the authority;
- ◆ *Unassigned* – Amounts that are available for any purpose; positive unassigned fund balance amounts are only allowed in a general fund.

When both restricted and unrestricted resources are available for use, it is the Office’s policy to use restricted resources first, then unrestricted resources. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Use of Estimates

The preparation of the basic 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 and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying values of financial instruments, including cash and accounts payable, approximate fair value due to their short-term nature. In management’s opinion, the fair value of these financial instruments approximates fair value.

Budgetary Data

The Department 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. The expenditures and encumbrances of each category may not legally exceed the budget for that category. Budgets are controlled at the “category” level within activities (personal services, employee benefits, etc.). The legal level of budgetary control is at the appropriation program level.

State of New Mexico
Office of the Governor
Notes to the Financial Statements
June 30, 2019

2) **Summary of Significant Accounting Principles – continued**

Any adjustment to the budget must be submitted to and approved by the State Budget Division in the form of a budget adjustment request.

The budget is adopted on the modified accrual basis of accounting, per statute Chapter 114, Section 3; however, accounts payable that are not recorded in a timely manner (before the statutory fiscal year-end deadline) will not be paid from the current year appropriation, and they are thus not recorded as a budgetary expenditure. Instead, they must be paid out of the next year's budget. This budgetary basis is not consistent with generally accepted accounting principles (GAAP).

Balances remaining at the end of the fiscal year from appropriations made from the State General Fund shall revert to the appropriate fund, unless otherwise indicated in the appropriations act or otherwise provided by law. Appropriations made to the Office lapse at year-end and revert to the State General Fund.

New Accounting Standards

GASB has issued several new accounting standards that are not yet effective or implemented by the Office. Management believes that none of the new accounting standards will have a significant impact on the Office.

3) **Investment in the State General Fund Investment Pool**

Compliant with Section 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.

A reconciliation of claims on the SGFIP to the related assets managed by STO assets is performed monthly. There is no material difference between the two amounts. State law (Section 8-6-3, NMSA 1978) requires the Office's cash be managed by the STO. Accordingly, the investments of the Office consist of an interest in the SGFIP managed by the STO.

At June 30, 2019, the Office had \$287,553 invested in the SGFIP according to STO. At June 30, 2019, this investment in the SGFIP is reduced by the Office's calculated reversions to the State General Fund, which totaled \$65,641 for the general fund and \$538 for the contingency fund for the year ended June 30, 2019. Therefore, the Office's reported investment in the SGFIP totaled \$221,374 at June 30, 2019.

State of New Mexico
Office of the Governor
Notes to the Financial Statements
June 30, 2019

3) Investment in the State General Fund Investment Pool – continued

Custodial Credit Risk – Deposits. The 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 STO and the Office did not have any other investments during the year ended June 30, 2019. There is no custodial credit risk at the Office’s level since the Office’s investments are under the contract of the STO.

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The SGFIP is not rated.

For additional disclosure information under GASB Statement No. 40 regarding cash held by the STO, the reader should see the separate audit report for the New Mexico State Treasurer’s Office for the fiscal year ended June 30, 2019.

4) **Capital Assets**

Capital assets activity for the year ended June 30, 2019 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Capital assets being depreciated</i>				
Office equipment	\$ 66,182	\$ -	\$ -	\$ 66,182
Furniture	22,754	-	-	22,754
Total capital assets being depreciated	<u>88,936</u>	<u>-</u>	<u>-</u>	<u>88,936</u>
<i>Less accumulated depreciation for</i>				
Office equipment	(29,164)	(9,459)	-	(38,623)
Furniture	(22,754)	-	-	(22,754)
Total accumulated depreciation	<u>(51,918)</u>	<u>(9,459)</u>	<u>-</u>	<u>(61,377)</u>
Capital assets, net	<u>\$ 37,018</u>	<u>\$ (9,459)</u>	<u>\$ -</u>	<u>\$ 27,559</u>

State of New Mexico
Office of the Governor
Notes to the Financial Statements
June 30, 2019

5) Compensated Absences

Changes in the Office's compensated absences liability for the year ended June 30, 2019 were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Due Within One Year
<i>Governmental activities</i>					
Compensated absences	\$ 124,207	\$ 79,747	\$ (85,786)	\$ 118,168	\$ 118,168
Total compensated absences	<u>\$ 124,207</u>	<u>\$ 79,747</u>	<u>\$ (85,786)</u>	<u>\$ 118,168</u>	<u>\$ 118,168</u>

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

6) Interagency Transfers

The Office had the following interagency transfers in and out for the year ended June 30, 2019:

Agency Transfer From	Agency Transfer To	Reference	Transfers In	Transfers Out
State General Fund (34101) - Fund 85300	Office of the Governor (35600) - General Fund (17600)	House Bill 2, Section 4 (General appropriation)	\$ 3,190,600	\$ -
State General Fund (34101) - Fund 85300	Office of the Governor (35600) - Contingency Fund (20820)	House Bill 2, Section 4 (General appropriation)	36,000	-
Department of Finance and Administration (34100) - Fund 62000	Office of the Governor (35600) - General Fund (17600)	House Bill 2, Section 4 (Compensation package)	36,400	-
Department of Finance and Administration (34100) - Fund 62000	Office of the Governor (35600) - General Fund (17600)	House Bill 2, Section 6 (Deficiency appropriation)	2,148	-
State General Fund (34101) - Fund 85300	Office of the Governor (35600) - General Fund (17600)	House Bill 2, Section 6 (Supplemental)	100,000	-
State General Fund (34101) - Fund 85300	Office of the Governor (35600) - General Fund (17600)	Senate Bill 536, Section 11 (Special appropriation)	50,000	-
Office of the Governor (35600) - General Fund (17600)	State General Fund (34101) - Fund 85300	Reversion - fiscal year 2019	-	(65,641)
Office of the Governor (35600) - Contingency Fund (20820)	State General Fund (34101) - Fund 85300	Reversion - fiscal year 2019	-	(538)
			<u>\$ 3,415,148</u>	<u>\$ (66,179)</u>

State of New Mexico
Office of the Governor
Notes to the Financial Statements
June 30, 2019

6) **Interagency Transfers – continued**

During fiscal year 2019, the Office received special, deficiency, and supplemental appropriations as follows:

- ◆ Deficiency appropriation of \$2,148 to cover an over-reversion related to the general fund appropriation for fiscal year 2018. This resulted in a budget deficit at June 30, 2018 which was recovered through this deficiency appropriation. No encumbrances were outstanding at June 30, 2019 related to this appropriation.
- ◆ Supplemental appropriation of \$100,000 for personal services and employee benefits shortfalls and for annual leave payouts in fiscal year 2019. The Office expended all of this appropriation during fiscal year 2019 and no encumbrances were outstanding at June 30, 2019 related to this appropriation.
- ◆ Special appropriation of \$50,000 for a review of the Children’s Code led by the children’s cabinet. The Office has not expended or encumbered any amounts against this appropriation at June 30, 2019, and this appropriation is available through June 30, 2020. Any unexpended or unencumbered balances remaining at June 30, 2020 revert to the State General Fund.

7) **Retirement Benefits – Public Employees Retirement Association**

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

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

State of New Mexico
Office of the Governor
Notes to the Financial Statements
June 30, 2019

8) Post-Employment Benefits – State Retiree Health Care Authority

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

The Office, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple-employer defined benefit post-employment health care plan that provides comprehensive group health insurance for persons who have retired from certain public service positions in the State of New Mexico. The other postemployment benefits (OPEB) Plan is administered by the Retiree Health Care Authority of the State of New Mexico. Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (State General Fund) and CAFR of the State of New Mexico.

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

9) Risk Management

The Office is exposed to various risks of loss 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 affecting the Office are processed through RMD. Coverage is provided for general liability, surety bond, property, and workers compensation. There is no pending or known threatened legal proceedings involving material matters to which the Office is a party.

Compliance Section

Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards*

The Honorable Michelle Lujan Grisham, Governor
and
Mr. Brian S. Colón, Esq., New Mexico State Auditor
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the budgetary comparison for the general fund and major special revenue fund of the State of New Mexico, Office of the Governor (the "Office") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements and have issued our report thereon dated October 25, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

The Office's Response to Findings

The Office's response 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 results 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Loftis Group LLC

Albuquerque, New Mexico
October 25, 2019

State of New Mexico
Office of the Governor
Schedule of Findings and Responses
For the Year Ended June 30, 2019

Section I — Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	No
Other findings required to be reported under Section 12-6-5, NMSA 1978?	No

State of New Mexico
Office of the Governor
Schedule of Findings and Responses – continued
For the Year Ended June 30, 2019

Section II — Financial Statement Findings

2019-001 – Purchase Orders (Significant Deficiency)

Criteria: According to the Manual of Model of Accounting Practices (MAPs), Section 4.1, all commitments to purchase goods or services must be documented by a properly completed purchase order in advance for goods or services by an external supplier. State agencies must enter the purchase order in the SHARE system to order goods or services and to support encumbrances for external suppliers.

Condition: Three purchases for goods and services with external suppliers during fiscal year 2019 were made without the use of a purchase order. The total amount of these purchases totaled \$16,849 and were approved after the purchases were made.

Cause: The Office experienced a change in administration during fiscal year 2019, including administrative staff. New employees were not completely aware of the MAPs requirements regarding the use of purchase orders.

Effect: Purchases totaling \$16,849 were completed prior being approved through use of a purchase order, in violation of MAPs.

Auditor's Recommendation: The Office should train new and incoming employees to ensure that all purchases of goods and services from external suppliers are approved in advance through the use of a purchase order.

Management's Response: The Office of the Governor acknowledges and concurs with the finding. To strengthen its controls over purchasing, the Office implemented internal processes and procedures to ensure proper approvals and purchases orders are in place prior to service and that all purchases follow the Manual of Model Accounting Practices.

State of New Mexico
Office of the Governor
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2019

Financial Statement Findings

None.

State of New Mexico
Office of the Governor
Exit Conference
For the Year Ended June 30, 2019

An exit conference was held in a closed session on October 23, 2019. Present at the exit conference were:

For the Office of the Governor:

Teresa Casados, Chief Operation Officer
Cyndi Montoya, Chief Financial Officer

For the Loftis Group LLC:

Joshua Trujillo, Senior Manager

Preparation of the Financial Statements

The accompanying financial statements of the Office have been prepared by Loftis Group LLC, the Office's independent auditors, however, the financial statements are the responsibility of management.