

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

Annual Financial Report
For the Year Ended June 30, 2018

INTRODUCTORY SECTION

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
June 30, 2018

Table of Contents

| | <u>Page</u> |
|---|-------------|
| INTRODUCTORY SECTION | |
| Table of Contents | i |
| Official Roster | ii |
| | |
| FINANCIAL SECTION | |
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 4 |
| | |
| BASIC FINANCIAL STATEMENTS | |
| Government-Wide Financial Statements: | |
| Statement of Net Position | 7 |
| Statement of Activities | 8 |
| Governmental Funds Financial Statements: | |
| Balance Sheet – Governmental Funds | 9 |
| Reconciliation of the Governmental Funds Balance Sheet to the Government- Wide Statement of Net Position | 10 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 11 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 12 |
| Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund | 13 |
| Notes to Financial Statements | 14 |
| | |
| SUPPLEMENTARY INFORMATION | |
| Schedule of Transfers | 29 |
| | |
| COMPLIANCE SECTION | |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 30 |
| Summary Schedule of Findings and Responses | 32 |
| Schedule of Findings and Responses | 33 |
| | |
| OTHER DISCLOSURES | |
| Exit Conference | 34 |

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Official Roster
June 30, 2018

ADMINISTRATIVE OFFICIALS

| | |
|-----------------|--|
| John A. Sanchez | Lieutenant Governor |
| Mark Van Dyke | Chief of Staff |
| Betty Garcia | Chief Financial Officer (as of March 2018) |
| Julia Ruetten | Chief Financial Officer (through March 2018) |

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

The Honorable John A. Sanchez, Lieutenant Governor
and
Mr. Wayne Johnson, 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 comparison for the general fund of the State of New Mexico, Office of the Lieutenant Governor (Office), as of and for the year ended June 30, 2018, 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.

Auditors' 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 auditors' 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, each major fund, and the budgetary comparison for the general fund of the State of New Mexico, Office of the Lieutenant Governor, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 4-6 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.

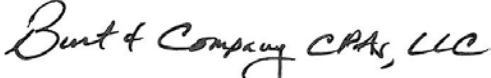
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of New Mexico, Office of the Lieutenant Governor basic financial statements. The additional schedules listed as "supplementary information" in the table of contents, which includes schedules required by 2.2.2 NMAC, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional schedules listed as "supplementary information" in the table of contents, which includes schedules required by 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 auditing standards generally accepted in the United States of America. In our opinion, the additional schedules listed as "supplementary information" in the table of contents, which includes schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2018, 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 solely 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 effectiveness of the Office's 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.


Burt & Company CPAs, LLC

October 19, 2018

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Management's Discussion and Analysis
(Unaudited)
June 30, 2018

The *Management's Discussion and Analysis*, or MD&A, for the State of New Mexico, Office of the Lieutenant Governor (the Office) introduces the basic financial statements and provides an analytical overview of the Office's financial condition and results of operations as of and for the year ended June 30, 2018. 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 total net position increased by \$8,306 in fiscal year 2018 from the year ended June 30, 2017.
- Expenditures during fiscal year 2018 increased by \$12,706 and transfers in of general appropriation remained the same as fiscal year 2017.
- All capital assets are fully depreciated.
- Our expenditures increased from the prior year and remained well within our budget of \$532,400.

Overview of the Basic Financial Statements:

Although the Office of the Lieutenant Governor is one of several agencies within the government of the State of New Mexico, the focus of this annual financial report is on the Office, and not the State of New Mexico. The financial statements include the following three elements: (1) Management's *Discussion and Analysis*, (2) the *Basic Financial Statements*, and (3) *Supplementary Information*.

The first two statements are entity-wide financial statements reporting information about the Office's overall financial condition and results of operations, both long-term and short-term, using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all assets, liabilities, and net position of the Office. Revenues and expenses are reported in the Statement of Activities regardless of when cash is received or disbursed.

Governmental fund statements, including the Balance Sheet and the Statement of Revenue, 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 general and major funds. The Office utilizes only one Fund which is the Office of the Lieutenant Governor's Operating Fund, which is the general fund.

Budgetary comparison schedules, or the *Statement of Revenue and Expenditures - Budget and Actual (Non-GAAP Budgetary Basis)*, reports the original approved budget, final approved budget, and actual results presented on the non-GAAP budgetary basis of reporting for the general fund. A separate column is presented to report variances between the final approved budget and actual amounts.

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

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Management's Discussion and Analysis (continued)
(Unaudited)
June 30, 2018

Financial Analysis of the Office as a Whole:

Condensed Financial Information:

| | Governmental Activities | |
|-------------------------------------|--------------------------------|---------------|
| | Current Year | Prior Year |
| | June 30, 2018 | June 30, 2017 |
| Statement of Position | | |
| Current assets | \$ 23,335 | 15,751 |
| Capital assets | - | - |
| Total assets | 23,335 | 15,751 |
| Current liabilities | 23,335 | 15,751 |
| Compensated absences - current | 10,690 | 16,068 |
| Total current liabilities | 34,025 | 31,819 |
| Noncurrent liabilities: | | |
| Compensated absences - noncurrent | 4,464 | 7,392 |
| Total liabilities | 38,489 | 39,211 |
| Net investment in capital assets | - | - |
| Unrestricted net position | (15,154) | (23,460) |
| Restricted net position | - | - |
| Total net position | \$ (15,154) | (23,460) |
| Statement of Activities | | |
| Transfers in: | | |
| State General Fund appropriations | \$ 532,400 | 532,400 |
| Other state funds | - | - |
| Total transfers in | 532,400 | 532,400 |
| Expenses: General government | (470,242) | (457,536) |
| Total expenses before reversions | (470,242) | (457,536) |
| Other financing uses: reversions | (53,852) | (76,225) |
| Change in net position | 8,306 | (1,361) |
| Net position, beginning of the year | (23,460) | (22,099) |
| Net position, end of the year | \$ (15,154) | (23,460) |

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Management's Discussion and Analysis (continued)
(Unaudited)
June 30, 2018

The financial position and results from operations for the Office of the Lieutenant Governor increased by \$8,306 in the year ended June 30, 2018. This was largely a result of a decrease in our compensated absences liabilities. Total state general fund appropriations of \$532,400 were the same as FY 17.

All capital assets have been fully depreciated. The Office did not acquire capital assets during the fiscal year.

Current liabilities increased by \$2,206 during the year. There was a decrease of \$22,373 in reversions due to the state general fund from \$76,225 on June 30, 2017 to \$53,852 on June 30, 2018. The deficit net position of \$15,154 is the result of compensated absence liabilities in the amount of \$15,154, which will be paid as used by employees in the years taken from future years appropriations.

The Office reverted the unexpended budget balances at June 30, 2018 to the state general fund by September 30, 2018, as required.

Compensated absences decreased during the year from \$23,460 at June 30, 2017 to \$15,154. There is an amount of \$10,690 considered to be a current liability due in less than one year and an amount of \$4,464 considered to be a non-current liability due in more than 1 year. Liabilities for compensated absences are measured on the accrual basis of accounting, so expenses for employee benefits are recognized when earned by the employees, increasing the liability for compensated absences. The liability will be reduced when annual leave is used by the employees. The decrease in these non-cash expenses resulted in a deficit for unrestricted net position at June 30, 2018 of \$15,154. It is possible the entire balance of compensated absences could be paid to employees within the next year; however, State General Fund appropriations for fiscal year 2018 are adequate to cover the potential disbursements.

Approved budgets from 2018 as compared to 2017 were the same at \$532,400. Actual non-GAAP budgetary basis expenditures of \$478,548 are \$53,852 under budgeted expenditures. Expenditures relating to personal services and benefits were \$42,922 under budget, contract costs were \$3,936 under budget, and other costs were \$6,994 under budget.

Contacting the Office's Financial Management:

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Office's finances and to demonstrate the Office's accountability for the money it receives. If you have questions about this report or need additional financial information, you may contact:

Office of the Lieutenant Governor
State Capitol Building
Suite 417
Santa Fe, NM 87501

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Statement of Net Position
June 30, 2018

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Current assets: | |
| Interest in State General Fund Investment Pool | \$ <u>23,335</u> |
| Total current assets | <u>23,335</u> |
| Total assets | 23,335 |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | 8,896 |
| Payroll taxes payable | 2,896 |
| Payroll benefits payable | 4,164 |
| Accrued salaries | 7,379 |
| Compensated absences - current | <u>10,690</u> |
| Total current liabilities | 34,025 |
| Noncurrent liabilities: | |
| Compensated absences - noncurrent | <u>4,464</u> |
| Total liabilities | 38,489 |
| Net Position | |
| Unrestricted (deficit) | <u>(15,154)</u> |
| Total net position | \$ <u>(15,154)</u> |

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

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Statement of Activities
For the Year Ended June 30, 2018

| | <u>Governmental Activities</u> |
|-----------------------------------|------------------------------------|
| Expenses: | |
| Operating and administrative | \$ <u>470,242</u> |
| Total expenses | 470,242 |
| Revenues: | |
| Other State funds | <u>-</u> |
| Total revenues | <u>-</u> |
| Net program expense | (470,242) |
| Transfers: | |
| State General Fund appropriations | 532,400 |
| Reversion fiscal year 2018 | <u>(53,852)</u> |
| Total transfers | <u>478,548</u> |
| Change in net position | 8,306 |
| Net position, beginning of year | <u>(23,460)</u> |
| Net position, end of year | \$ <u><u>(15,154)</u></u> |

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

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Balance Sheet -
Governmental Funds
June 30, 2018

| | General Fund |
|--|------------------|
| Assets | |
| Interest in State General Fund Investment Pool | \$ <u>23,335</u> |
| Total assets | \$ <u>23,335</u> |
| Liabilities and Fund Balance | |
| Liabilities: | |
| Accounts payable | \$ 8,896 |
| Payroll taxes payable | 2,896 |
| Payroll benefits payable | 4,164 |
| Accrued salaries and benefits | <u>7,379</u> |
| Total liabilities | 23,335 |
| Fund balance: | |
| Unassigned | <u>-</u> |
| Total liabilities and fund balance | \$ <u>23,335</u> |

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

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Position
June 30, 2018

| | | |
|--|----------|-----------------|
| Total fund balance for Governmental Funds | \$ | - |
| <p>Amounts reported for governmental activities in the statement of net position are different because:</p> | | |
| <p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:</p> | | |
| Compensated absences | (15,154) | |
| Total liabilities | | <u>(15,154)</u> |
| Net position of governmental activities | \$ | <u>(15,154)</u> |

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

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2018

| | <u>General Fund</u> |
|---|------------------------------|
| Revenues: | |
| Other state funds | \$ <u> -</u> |
| Total revenues | - |
| Expenditures: | |
| Operating and administrative | <u>478,548</u> |
| Total expenditures | <u>478,548</u> |
| Excess (deficiency) of revenues over expenditures | (478,548) |
| Other financing sources (uses): | |
| State General Fund appropriation | 532,400 |
| Reversion fiscal year 2018 | <u>(53,852)</u> |
| Total other financing sources (uses) | <u>478,548</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 LIEUTENANT GOVERNOR
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2018

| | |
|---|------------------------|
| Net change in fund balance - total governmental funds (Statement of revenues, expenditures, and changes in fund balance) | \$ - |
| Expenses recognized in the statement of activities, not reported in governmental funds: | |
| Decrease in compensated absences | <u>8,306</u> |
| Change in net position of governmental activities | \$ <u><u>8,306</u></u> |

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

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis) -
General Fund
For the Year Ended June 30, 2018

| | <u>Budgeted Amounts</u> | | Actual Amounts (Non- GAAP Budgetary Basis) | Variance With Final Budget Positive (Negative) |
|---|-------------------------|----------------|--|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| General Fund appropriation | \$ 532,400 | 532,400 | 532,400 | - |
| Total revenues | <u>\$ 532,400</u> | <u>532,400</u> | 532,400 | - |
| Expenditures: | | | | |
| Personal services and benefits | \$ 474,900 | 444,900 | 401,978 | 42,922 |
| Contractual services | 14,600 | 14,600 | 10,664 | 3,936 |
| Other costs | 42,900 | 72,900 | 65,906 | 6,994 |
| Total expenditures | <u>\$ 532,400</u> | <u>532,400</u> | <u>478,548</u> | <u>53,852</u> |
| Excess revenues over expenditures | | | 53,852 | 53,852 |
| Items not budgeted: | | | | |
| Reversions fiscal year 2018 | | | (53,852) | |
| Change in accruals | | | - | |
| Net change in fund balance (GAAP basis) | | \$ | <u>-</u> | |

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

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Notes to Financial Statements
June 30, 2018

1. Summary of Significant Accounting Policies

The Office of the Lieutenant 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.

The Lieutenant Governor shall be President of the Senate, but shall vote only when the Senate is equally divided. He may also execute delegated duties assigned by the Governor.

Other powers and duties of the Lieutenant Governor are to:

- a. Facilitate and promote the cooperation and understanding between the people of the State and the agencies of State Government, by assisting them in their dealing with such agencies, and by assisting the agencies to explain their functions, duties, and administrative procedures in so far as they affect the people of this State.
- b. Refer any complaints or special problems of the citizens of this State to the proper agency in a timely and courteous fashion.
- c. Keep records of his activities and make an annual report to the Governor.

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

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 in the financial data of the State. The Office has no component units that are required to be reported in its 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 LIEUTENANT GOVERNOR
Notes to Financial Statements
June 30, 2018

1. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements

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 governmental entity and has no business-type activities. In the Government-wide Statement of Net Position, the governmental activities are presented on a consolidated basis, and are reflected on a full accrual, economic resources measurement basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide financial statements are designed to be corporate-like in that all governmental activities consolidate into columns that add to a total for the Office and consist of a statement of net position and a statement of activities. Neither fiduciary funds nor component units that are fiduciary in nature are included in the government wide statements. The Office has no fiduciary funds and no component units.

The fund financial statements, the balance sheet, and statement of revenues, expenditures, and changes in fund balances, are presented to give additional information about the Office. 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, and has no nonmajor funds.

The governmental funds in the fund financial statements are presented on a current financial resources and modified accrual basis of accounting. This is the manner in which these 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 General Fund, the only major fund 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

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Notes to Financial Statements
June 30, 2018

1. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements (continued)

assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combined) for the determination of major funds. The general fund is always a major fund and the Office has no non-major funds. The Office uses the following fund types:

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 the spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. The following is a description of the Governmental Funds of the Office:

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

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

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 presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual method of accounting revenues are recognized when earned and expenditures are recognized when incurred. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of Statement 33. The Office has established a policy whereby restricted funds are applied to expenditures prior to the use of unrestricted funds when both are available.

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

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Notes to Financial Statements
June 30, 2018

1. Summary of Significant Accounting Policies (continued)

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

is, when they become both measurable and available to finance expenditures of the current fiscal period; available meaning collectible within sixty (60) days or soon enough thereafter to be used to pay liabilities of the current period.

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

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.

D. Assets, Liabilities and Equity

1. Interest in 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.

2. Capital Assets

Property, plant, and equipment purchased or acquired at a value of \$5,000 or greater are capitalized. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over estimated useful lives of 3 to 10 years with no salvage value. Any software acquired is also capitalized and depreciated. The Office has no software that has been internally developed.

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 expenses are not included in the accompanying financial statements. GASB No. 34 requires the recording and depreciation of infrastructure assets such as roads, bridges, etc. The Office does not own any infrastructure assets.

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Notes to Financial Statements
June 30, 2018

1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

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 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, 2018.

4. Fund Balance

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 by creditors or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or in some cases by legislation.

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

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Notes to Financial Statements
June 30, 2018

1. Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities and Equity (continued)

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), restricted and unrestricted.

Net Investment in Capital Assets (net of related debt) - is intended to reflect the portion of net position which is associated with non-liquid 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 their 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 of \$15,154 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, 2018.

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, 2018.

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.

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Notes to Financial Statements
June 30, 2018

2. Stewardship, Compliance, and Accountability

A. Budgetary Data

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 1st. The state legislature must approve the budget prior to its legal enactment.
2. The expenditures and encumbrances of each category 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, professional services and other expenditures).
3. Any adjustments to the budget must be submitted to and approved by the State of New Mexico Department of Finance and Administration in the form of a budget adjustment request.
4. The budget is adopted on a modified accrual basis of accounting that is consistent with generally accepted accounting principles (GAAP). This change was implemented with the Laws of 2004, Chapter 114, Section 3, paragraph N and paragraph O. This change is effective for fiscal years beginning July 1, 2004. Budgetary comparisons presented in the financial statements are now presented on a GAAP basis.
5. The Office has been designated as a "reverting agency" by the New Mexico state legislature and, therefore, unexpended 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 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. Receivables are recognized as revenue in the year the transfers or services, which gave rise to the receivable, are provided.

3. Investment in the State General Fund Investment Pool (SGFIP)

As provided for in Chapter 8-6 of the New Mexico Statutes Annotated 1978, the State Treasurer shall receive and keep all monies of the State, except when otherwise provided, and shall disburse the public money upon lawful warrants. The State Treasurer's Office (STO) acts as the state's bank. Agency cash receipts are deposited with STO and pooled in a state-wide investment

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Notes to Financial Statements
June 30, 2018

3. Investment in the State General Fund Investment Pool (SGFIP) (continued)

fund, when amounts are greater than immediate needs they are placed into short-term investments. When agencies make payments to vendors and employees they are made from this pool and their claims on the pool reduced.

The comprehensive cash reconciliation model, which compares aggregated agency claims on the SGFIP to the associated resources held by the STO, is now in its fourth year. This process has been reviewed multiple times by the IPAs performing audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Comprehensive Annual Financial Report (CAFR). The reviews have deemed the process to be sound and the Department fully compliant with the requirements of the monthly process.

This purpose of this memo is to provide the following assertions:

1. As of June 30, 2018, resources held in the pool were equivalent to the corresponding business unit claims on those resources.
2. All claims as recorded in SHARE shall 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.

At June 30, 2018, the Office had the following invested in the State General Fund Investment Pool:

| | SHARE | | | |
|--------------------------------------|--------|----------|-----------|------------|
| | Fund | | Account | |
| | Number | Maturity | Balance | Fair Value |
| <u>General Fund:</u> | | | | |
| Investment in the State General Fund | | | | |
| Investment Pool | 17700 | 1 day | \$ 23,335 | \$ 23,335 |

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 General Fund Investment Pool is not rated for credit risk.

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Notes to Financial Statements
June 30, 2018

3. Investment in the State General Fund Investment Pool (SGFIP) (continued)

Custodial Credit Risk-Deposit

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, 2018. There is no custodial risk at the Office's level since the Office's investments are under the contract of the STO.

For further information regarding the SGFIP, 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.

4. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

| Cost | June 30, 2017 | Additions | Deletions | Adjustments | June 30, 2018 |
|-----------------------------------|------------------|-----------|-----------|----------------|------------------|
| Office equipment | \$ 2,323 | - | - | (2,323) | - |
| Furniture | 3,940 | - | - | (3,940) | - |
| Data processing | 1,153 | - | - | (1,153) | - |
| Total cost | <u>7,416</u> | <u>-</u> | <u>-</u> | <u>(7,416)</u> | <u>-</u> |
| Accumulated depreciation | | | | | |
| Office equipment | (2,323) | - | - | 2,323 | - |
| Furniture | (3,940) | - | - | 3,940 | - |
| Data processing | (1,153) | - | - | 1,153 | - |
| Total accumulated depreciation | <u>(7,416)</u> | <u>-</u> | <u>-</u> | <u>7,416</u> | <u>-</u> |
| Net capital assets | \$ <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

The Office does not have any debt related to capital assets. There is no depreciation expense for the year ended June 30, 2018.

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Notes to Financial Statements
June 30, 2018

5. Accounts Payable

Accounts payable represents expenditures incurred as of June 30, 2018, but not paid until after year-end. Accounts payable was \$8,896 as of June 30, 2018.

6. Compensated Absences

The following is a summary of changes in compensated absences:

| | Balance June 30, 2017 | Increase | Decrease | June 30, 2018 | Due Within One Year | Due Over One Year |
|--------------|-----------------------------|----------|----------|------------------|---------------------------|----------------------|
| Annual Leave | \$ 23,460 | 15,349 | 23,655 | 15,154 | 10,690 | 4,464 |

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

7. Operating Leases

The Office leases equipment under operating leases. Operating leases do not give rise to property rights or lease obligation, and therefore, the result 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. Rental expenditures for the year ended June 30, 2018 were \$2,935.

The Office has commitments for lease obligations in the following:

| Fiscal Year | | |
|-------------|----|-------|
| 2019 | \$ | 3,000 |
| 2020 | | 3,000 |
| 2021 | | 1,362 |
| TOTALS | \$ | 7,362 |

8. Retirement Plan, Deferred Compensation Plan, and Post-Employment Benefits

Pension Plan - Public Employees Retirement Association

Plan Description - Substantially all of the Office's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article II, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Notes to Financial Statements
June 30, 2018

8. Retirement Plan, Deferred Compensation Plan, and Post-Employment Benefits (continued)

Pension Plan - Public Employees Retirement Association (continued)

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

Funding Policy - Plan members are required to contribute 8.92% of their gross salary. The Office is required to contribute 16.99% of the gross covered salary. The contribution requirements of plan members and the Office are established in State statute under Chapter 10, Article II, NMSA 1978. The requirements may be amended by acts of the legislature. The Office's contributions to PERA for the fiscal years ending June 30, 2018, 2017, and 2016 were \$35,137, \$35,485, and \$35,361, respectively, which equal the amount of the required contributions for each fiscal year.

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 PERA. Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and 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 General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, NM 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 plan 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 LIEUTENANT GOVERNOR
Notes to Financial Statements
June 30, 2018

8. Retirement Plan, Deferred Compensation Plan, and Post-Employment Benefits (continued)

Post-Employment Benefits - State Retiree Health Care Plan

Plan Description – The Office contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents.

The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance and long-term care policies.

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2016, 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(F) 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 RHCA.

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Notes to Financial Statements
June 30, 2018

8. Retirement Plan, Deferred Compensation Plan, and Post-Employment Benefits (continued)

Post-Employment Benefits - State Retiree Health Care Plan (continued)

Compliant with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the State of New Mexico has implemented this standard for 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 postemployment health care plan that provides comprehensive group health insurance for persons who have retired from certain public service positions in New Mexico. The other postemployment benefits (OPEB) Plan is administered by the RHCA of the State of New Mexico. Overall, total OPEB liability exceeds OPEB Plan net position resulting in a net OPEB liability. The State has determined the State's share of the net OPEB liability to be a liability of the State as a whole, rather than any agency or department of the State and the liability will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the CAFR of the State of New Mexico.

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico CAFR for the year ended June 30, 2018 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.

The Office's contributions to the RHCA for the years ended June 30, 2018, 2017, and 2016 were \$4,136, \$4,177, and \$4,163, respectively, which equal the required contributions for each year.

9. Risk Management

The Office obtains coverage through the Risk Management Division of the New Mexico General Services Department. This coverage includes general liability, worker's compensation, law enforcement liability, civil rights, property, and vehicle. These coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Office are covered by a blanket fidelity bond of \$5,000,000 coverage limit with a \$1,000 deductible per occurrence by the State of New Mexico for the period July 1 through June 30. There are no pending or known threatened legal proceedings involving material matters to which the Office is a party.

10. External Investment Pool (SGFIP) - Amortized Cost

In December 2015, GASB issued statement No. 79 titled "Certain External Investment Pools and Pool Participants", which established criteria that, if met, permit external investment pools to elect to measure all of their investments at amortized cost for financial reporting purposes. If the external investment pool meets the criteria in GASB 79 and measures all of its investments

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Notes to Financial Statements
June 30, 2018

10. External Investment Pool (SGFIP) - Amortized Cost (continued)

at amortized cost, the pool's participants also should measure their investments in that external investment pool at cost for financial reporting purposes.

As a pool participant, the Office measures their investments at cost for financial reporting purposes. The Office, as a state agency, holds its balances in the SGFIP, which is managed by the STO. See additional disclosures on the separate audited financial statements. That report may be obtained by writing to the State Treasurer's Office, P.O. Box 608, Santa Fe, NM 87504-0708.

11. New Accounting Standards

GASB 75

Governmental Accounting Standards Board Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. GASB 75 is effective for fiscal years beginning after June 15, 2017 (FY18). The Office adopted GASB Statement No. 75 during fiscal year 2018, with no significant impact to the Office's financial statements.

GASB 85

GASB Statement No. 85 Omnibus 2017 address practice issues identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (OPEB). GASB 85 is effective for fiscal years beginning after June 15, 2017 (FY18). The Office adopted GASB Statement No. 85 during fiscal year 2018, with no significant impact to the Office's financial statements.

12. Unrestricted Deficit Net Position

GASB 34 requires recording of capitalized assets, net of accumulated depreciation and long-term liabilities, which results in an unrestricted net position of \$15,154. This deficit is created by compensated absences liabilities which are expected to be paid from subsequent years state general fund appropriation.

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Notes to Financial Statements
June 30, 2018

13. Subsequent Events

The Office has evaluated subsequent events through October 19, 2018, which is the date the financial statements were available to be issued. In the opinion of management, no events occurring after June 30, 2018, require adjustment or disclosure to the financial statements.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Schedule of Transfers
June 30, 2018

| Description | Agency | From Fund | To Fund | Reference | Transfer | |
|-----------------------------------|--|--------------|------------|--|-------------------|---------------|
| | | | | | In | Out |
| State Appropriations | | | | | | |
| General Fund Appropriation | State General Fund | 85300 | 17700 | Laws 2017, Ch 135, Sec 4 C | \$ <u>532,400</u> | <u>-</u> |
| Total State Appropriations | | | | | \$ <u>532,400</u> | <u>-</u> |
| Reversion | | | | | | |
| General Fund Appropriation | Department of Finance & Administration | 17700 | 85300 | Laws 2017, Ch 135 Sec 3E Reversion of current year miscellaneous income | \$ <u>-</u> | <u>53,852</u> |
| Total Reversion | | | | | \$ <u>-</u> | <u>53,852</u> |

See Independent Auditors' Report.

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

The Honorable John A. Sanchez, Lieutenant Governor
and
Mr. Wayne Johnson, New Mexico State Auditor
Santa Fe, New Mexico

We have audited, 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, the financial statements of the governmental activities, each major fund and the budgetary comparison of the general fund, of the State of New Mexico, Office of the Lieutenant Governor (Office) as of and for the year ended June 30, 2018 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 19, 2018.

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

Compliance and Other Matters

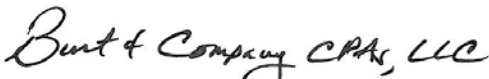
As part of obtaining reasonable assurance about whether the Office's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2018-001.

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.


Burt & Company CPAs, LLC

October 19, 2018

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Summary Schedule of Findings and Responses
June 30, 2018

I. Prior-Year Audit Findings

None.

II. Current-Year Findings Pertaining to the Financial Statements

2018-001 – Compliance with Per Diem and Mileage Act

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Schedule of Findings and Responses
June 30, 2018

CURRENT YEAR FINDINGS

2018-001 Compliance with Per Diem and Mileage Act – Other noncompliance

Condition: During testing of compliance with the Per Diem and Mileage Act, the Office had the following deficiency:

- For one expenditure in the amount of \$184, in the sample of twenty-five expenditures tested, the expenditure reimbursed an employee an additional \$12 over the partial day per diem rate primarily due to a math footing error.

Criteria: NMSA 1978 Section 10-8-4 specifies the amount of per diem expenses to be paid pursuant to the Act.

Effect: The Office is not in compliance with state statute.

Cause: The Office did not ensure all transactions were in compliance with the Act.

Recommendations: Recommend the Office comply with state statute requirements concerning the Per Diem and Mileage Act.

Management's Response: In FY 19, the overpayment of \$12 was repaid to the Office and deposited into the General Fund. Effectively immediately the CFO will ensure all expenditures are in compliance with the Per Diem and Mileage Act.

STATE OF NEW MEXICO
OFFICE OF THE LIEUTENANT GOVERNOR
Exit Conference
June 30, 2018

Financial Statement Preparation

The financial statements and notes to the financial statements were prepared by the auditors of Burt & Company CPAs, LLC. However, the financial statements are the responsibility of management.

Exit Conference

An exit conference was held on October 19, 2018 to discuss the audit and contents of this report. The following individuals were in attendance:

State of New Mexico, Office of the Lieutenant Governor

Mark Van Dyke, Chief of Staff
Betty Garcia, Chief Financial Officer
Duffy Rodriguez, Cabinet Secretary, DFA

Independent Auditor – Burt & Company CPAs, LLC

Ronald E. Schranz, CPA, CVA - Partner