

State of New Mexico
Office of the Lieutenant Governor

Financial Statements and Exhibits
With Independent Auditors' Report Thereon

For the Fiscal Year Ended June 30, 2004

1-11-2005

RECEIVED
NOV 19 2004
STATE AUDITOR

RECEIVED
JAN - 7 2005
STATE AUDITOR



State of New Mexico
OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

January 11, 2005

SAO Ref. No. 360

Honorable Diane Denish, Lieutenant Governor
Office of the Lieutenant Governor
State Capitol Room 417
Santa Fe, NM 87503


SUBJECT: Audit Report—Office of the Lieutenant Governor—2003-2004 Fiscal Year—Prepared
by Zlotnick, Laws & Sandoval, PC

Your agency audit report was received by the Office of the State Auditor (Office) on November 19, 2004. The State Auditor examination of the audit report required by Section 12-6-14 (D), NMSA 1978, has been completed. This letter is the authorization to make the final payment to the independent public accountant (IPA) who contracted to perform the agency's financial and compliance audit. In accordance with the Section 2 (B) of the audit contract, the IPA will deliver the specified number of copies of the audit to the agency.

Per Section 12-6-5 (A), NMSA 1978, **the audit report does not become public record until ten days after the date of this letter.** Once the ten day waiting period has passed the audit report shall be:

- released by the Office of the State Auditor to the Legislative Finance Committee, the Department of Finance and Administration, and the State Treasurer; and
- presented by the agency to a quorum of the agency's governing authority at a public meeting, for approval, per Section 2.2.2.10 K. (3) (d) of 2.2.2 NMAC *Requirements for Contracting and Conducting Audits of Agencies.*

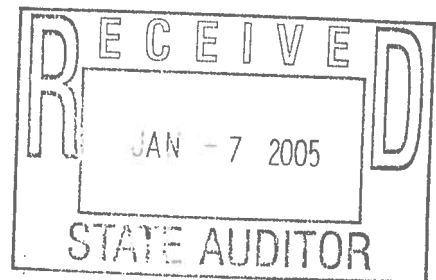
The independent public accountant's findings and comments are included in the audit report on page 31. ***It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments.***


DOMINGO P. MARTINEZ, CGFM
STATE AUDITOR

cc: Legislative Finance Committee
Department of Finance and Administration
Financial Control Division & Budget Division
Office of the State Treasurer
Zlotnick, Laws & Sandoval, PC

2113 Warner Circle, Santa Fe, New Mexico 87505-5499
(505) 827-3500 (800) 432-5517 Fax (505) 827-3512
<http://www.saonm.org>

INTRODUCTORY SECTION



**State of New Mexico
Office of the Lieutenant Governor**

June 30, 2004

Official Roster

Diane Denish

Lieutenant Governor

Sonya Carrasco-Trujillo

Chief of Staff

**State of New Mexico
Office of the Lieutenant Governor**

Table of Contents

June 30, 2004

Introductory Section

Official Roster	i
Table of Contents	ii-iii

Financial Section

Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-5

Basic Financial Statements

Government Wide Financial Statements

<u>Exhibit 1</u> - Statement of Net Assets	6
<u>Exhibit 2</u> - Statement of Activities	7

Fund Financial Statements

<u>Exhibit 3</u> - Balance Sheet - Governmental Funds	8
<u>Exhibit 4</u> - Reconciliation of the Balance Sheet to the Statement of Net Assets - Governmental Funds	9
<u>Exhibit 5</u> - Statement of Revenues, Expenditures, & Changes in Fund Balance - Governmental Funds	10
<u>Exhibit 6</u> - Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	11
<u>Exhibit 7</u> - Statement of Revenues and Expenditures Budget and Actual (Non-GAAP Budgetary Basis)- Governmental Fund	12

Notes to Financial Statements	13-24
--	--------------

Supplementary Information Section

<u>Schedule 1</u> - Schedule of Cash Accounts	25
---	----

**State of New Mexico
Office of the Lieutenant Governor**

Table of Contents

June 30, 2004

Schedule 2 - Year-end Budget and Encumbrance Analysis 26-27

Schedule 3 - Schedule of Expenditures of Federal Awards 28

Government Auditing Standards Report

Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance Based on an Audit
of Financial Statements Performed in Accordance with
Government Auditing Standards 29-30

Schedule of Findings 31

Status of Prior Year Audit Findings 32

Exit Conference 33

FINANCIAL SECTION

Zlotnick, Laws & Sandoval, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
ONE CALLE MEDICO
SANTA FE, NEW MEXICO 87505

DAVID G. ZLOTNICK, CPA
ASA LAWS, CPA
RICHARD SANDOVAL, CPA

TELEPHONE (505) 982-3894
FAX (505) 982-3818

Independent Auditors' Report

Domingo P. Martinez, CGFM
State Auditor, and

Honorable Liane Denish
Lieutenant Governor, State of New Mexico
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities and major fund of the State of New Mexico, Office of the Lieutenant Governor as of and for the year ended June 30, 2004, which collectively comprise the Office's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of New Mexico, Office of the Lieutenant Governor's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

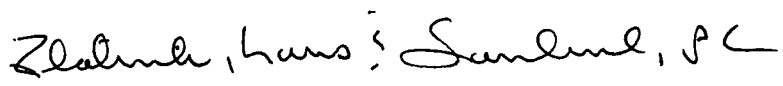
As discussed in Note 1, the financial statements of the State of New Mexico Office of the Lieutenant Governor are intended to present the financial position and changes of financial position of only that portion of the governmental activities and major fund of the State that is attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2004 and the changes in its financial position thereof and the respective budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, and major fund of the State of New Mexico, Office of the Lieutenant Governor as of June 30, 2004, and the results of its operations, and the respective budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 25, 2004, on our consideration of the State of New Mexico, Office of the Lieutenant Governor's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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 result of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole and on the individual fund financial statements. The supplemental data disclosed as schedules 1 through 3 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Office. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Zlotnick, Laws & Sandoval, P.C.
Certified Public Accountants
October 25, 2004

State of New Mexico
Office of the Lieutenant Governor
Management's Discussion and Analysis
(Required Supplementary Information)
June 30, 2004

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, 2004. The MD&A also provides a discussion of significant changes in the account categories presented in the entity-wide *Statement of Net Assets* and *Statement of Activities*. This summary is intended to be a supplement to and should be read in conjunction with the basic financial statements.

Condensed Financial Information:

	<u>Governmental Activities</u>			
	<u>Current Year</u>	<u>Prior Year</u>	<u>Increase/</u>	<u>Percentage</u>
	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>(Decrease)</u>	<u>Change</u>
Statement of Net Assets				
Current assets	\$ 255,770	\$ 79,897	\$ 175,873	220 %
Capital assets	<u>26,247</u>	<u>15,949</u>	<u>10,298</u>	<u>65 %</u>
Total assets	<u>\$ 282,017</u>	<u>\$ 95,846</u>	<u>\$ 186,171</u>	<u>194 %</u>
Current liabilities	\$ 258,225	\$ 42,847	\$ 215,378	503 %
Noncurrent liabilities	-	-	-	-
Total liabilities	<u>\$ 258,225</u>	<u>\$ 42,847</u>	<u>\$ 215,378</u>	<u>503 %</u>
Investment in capital assets	\$ 26,247	\$ 15,949	\$ 10,298	65 %
Restricted net assets	<u>(2,455)</u>	<u>37,050</u>	<u>(39,505)</u>	<u>(107)%</u>
Total net assets	<u>\$ 23,792</u>	<u>\$ 52,999</u>	<u>\$ (29,207)</u>	<u>(55)%</u>
Statement of Activities				
General revenue: State general fund appropriations	\$ 630,800	\$ 524,900	\$ 105,900	20 %
Section 401(b), Jobs and Growth Tax Reconciliation Act of 2003	68,593	-	68,593	100 %
Miscellaneous revenue	<u>2</u>	<u>-</u>	<u>2</u>	<u>100 %</u>
Total revenue	699,395	524,900	174,495	33 %
Expenses: General government	(683,848)	(451,912)	(231,936)	51 %
Other financing uses: Reversions	<u>(44,754)</u>	<u>(23,648)</u>	<u>(21,106)</u>	<u>89 %</u>
Change in net assets	<u>(29,207)</u>	<u>49,340</u>	<u>(78,547)</u>	<u>(159)%</u>
Net assets, beginning of year	<u>52,999</u>	<u>3,659</u>	<u>49,340</u>	<u>1,348 %</u>
Net assets, end of year	<u>\$ 23,792</u>	<u>\$ 52,999</u>	<u>\$ (29,207)</u>	<u>(55)%</u>

**State of New Mexico
Office of the Lieutenant Governor
Management's Discussion and Analysis
(Required Supplementary Information)
June 30, 2004**

Financial Highlights:

The financial position and results from operations for the Office of the Lieutenant Governor improved during the year ended June 30, 2004 as a result of increased funding levels. In addition to the \$105,900 increase in state general fund appropriations, the Office received a federal grant in the amount of \$225,000 from Section 401(b) of the Jobs and Growth Tax Reconciliation Act of 2003. Increased funding levels resulted in expanded levels of governmental activity within the Lieutenant Governor's Office as well as financial gains in total assets, total revenue, and total expenses.

Current liabilities grew significantly by 503% during the year. Unspent federal grant revenue of \$156,407 is classified as deferred revenue and added to current liabilities in the Statement of Net Assets and in the Balance Sheet as of June 30, 2004. From the \$225,000 in federal grants received, \$68,593 were spent during the current year, and the remaining \$156,407 will be spent next year. Fund balance restricted for the State Ombudsman Program at June 30, 2004 posted a deficit of \$6,870 due to outstanding encumbrances for contractual services that are funded with grant proceeds. The fund balance deficit will be offset in the upcoming year by the deferred revenue upon completion of the contractual services. The grant is non-renewable and will end when the remaining \$156,407 has been exhausted. New sources of support, such as state general fund appropriations, will be required to continue the activities now being funded by the grant.

Outstanding reversions at June 30, 2003 of \$23,768 were required to be transferred to the state general fund by September 30, 2003, but were not. With the additional \$44,754 in reversions accruing in the current year, the total amount due to the state general fund at June 30, 2004 grew to \$68,522. Of this amount, \$60,204 was transferred to the state general fund on September 30, 2004. The remaining \$8,318 is due within 45 days of release of the current year's audited financial statements.

Compensated absences increased by 156% during the year from \$6,315 at June 30, 2003 to \$16,136. Employees accrued 771 hours of annual leave during the year and used 442 hours. 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 large increase in these non-cash expenses resulted in a deficit for restricted net assets at June 30, 2004 of \$2,455. It is possible for the entire balance of compensated absences to be paid to employees within the next year, however State General Fund appropriations for fiscal year 2005 are adequate to cover the potential disbursements.

Fund balance did show a sharp decline during the year. In addition to the factors cited above, reported encumbrances of \$43,365 at June 30, 2003 were at a higher than normal level. These encumbrances were liquidated in fiscal year 2004 adding \$42,365 in expenditures, \$1,000 in reversions, and reducing fund balance and net assets. Currently, encumbrances are at a more reasonable and sustainable level of \$20,551.

State of New Mexico
Office of the Lieutenant Governor
Management's Discussion and Analysis
(Required Supplementary Information)
June 30, 2004

Approved budgets increased by \$225,000 during the year from the original amount of \$630,000 to \$855,000. The 36% increase is attributable to the new federal grant awarded pursuant to Section 401(b) of the Jobs and Growth Tax Reconciliation Act of 2003. Unforseen federal funds were appropriated by the N.M. State Legislature in the General Appropriations Act of 2003 (Laws of 2003, Chapter 76, Section 3, Part I). Actual budgetary basis expenditures of \$664,587 are within the total allowed in the final approved budget by \$191,213.

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 only focus of this annual financial report is on the Office, and not the State of New Mexico. The basic financial statements include the following three elements: (1) *Management's Discussion and Analysis*, (2) the *Basic Financial Statements*, and (3) *Required 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 Assets* includes all assets, liabilities, and net assets 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.

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 budgetary basis of reporting for the general fund and each major 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*.

BASIC FINANCIAL STATEMENTS

State of New Mexico
Office of the Lieutenant Governor

Statement of Net Assets
(Government Wide)
June 30, 2004

Governmental Activities

ASSETS

Current assets:

Cash on deposit with the State Treasurer	\$ 255,770
--	------------

Noncurrent assets:

Capital assets, net of accumulated depreciation	<u>26,247</u>
Total Assets	<u>282,017</u>

LIABILITIES

Current liabilities:

Accounts payable	3,050
Accrued salaries	14,110
Due to state general fund	68,522
Deferred revenue	156,407
Current portion of compensated absences	<u>16,136</u>
Total current liabilities	258,225

Noncurrent liabilities:

Noncurrent portion of compensated absences	<u>-</u>
Total Liabilities	<u>258,225</u>

NET ASSETS

Invested in capital assets	26,247
Restricted for the State Ombudsman Program (Deficit)	<u>(2,455)</u>
Total Net Assets	<u>\$ 23,792</u>

See the accompanying notes to the financial statements.

**State of New Mexico
Office of the Lieutenant Governor**

**Statement of Activities
(Government Wide)
For the year ended June 30, 2004**

	<u>Governmental Activities</u>
Program Expense: State Ombudsman Program	\$ 683,848
Program Revenue: Operating grants and contributions	<u>68,593</u>
Net program (expense)/revenue	(615,255)
General Revenue:	
State general fund appropriations	630,800
Miscellaneous revenue	<u>2</u>
Total general revenue	630,802
Other financing sources/(uses): Reversions	<u>(44,754)</u>
Change in net assets	(29,207)
Net assets, beginning of year	<u>52,999</u>
Net assets, end of year	<u>\$ 23,792</u>

See accompanying notes to the financial statements.

FUND FINANCIAL STATEMENTS

**State of New Mexico
Office of the Lieutenant Governor**

**Balance Sheet
Governmental Funds
June 30, 2004**

	<u>General Fund</u>
Assets:	
Cash on deposit with the State Treasurer	\$ <u>255,770</u>
Total Assets	\$ <u><u>255,770</u></u>
Liabilities:	
Accounts payable	\$ 3,050
Accrued salaries and benefits	14,110
Due to other state general fund (Note 3 (D))	68,522
Deferred revenue	<u>156,407</u>
Total Liabilities	<u><u>242,089</u></u>
Fund Balances:	
Reserved for:	
Encumbrances	20,551
State Ombudsman Program	<u>(6,870)</u>
Total Fund Balances	<u><u>13,681</u></u>
Total Liabilities and Fund Balances	\$ <u><u>255,770</u></u>

See accompanying notes to the financial statements.

**State of New Mexico
Office of the Lieutenant Governor**

**Reconciliation of the Balance Sheet
to the Statement of Net Assets
Governmental Funds
June 30, 2004**

Total fund balances for governmental funds	\$	13,681
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Property, Plant and Equipment	\$	54,957
Accumulated depreciation		<u>(28,710)</u>
Total Capital Assets		26,247
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Compensated absences		<u>(16,136)</u>
Total Net Assets of Governmental Activities	\$	<u><u>23,792</u></u>

See accompanying notes to the financial statements.

**State of New Mexico
Office of the Lieutenant Governor**

**Statement of Revenues, Expenditures & Changes in Fund Balance
Governmental Funds
For the year ended June 30, 2004**

	<u>General Fund</u>
Revenues:	
State general fund appropriations	\$ 630,800
Federal grants	68,593
Other	<u>2</u>
Total Revenues	<u>699,395</u>
 Expenditures:	
Current: State Ombudsman Program	667,815
Capital outlay	<u>16,510</u>
Total Expenditures	<u>684,325</u>
Excess (deficiency) of revenues over expenditures	15,070
 Other Financing Sources (Uses):	
Reversions	<u>(44,754)</u>
Net change in fund balance	(29,684)
Fund balance at beginning of year	<u>43,365</u>
Fund balance at end of year	<u>\$ 13,681</u>

See accompanying notes to the financial statements.

State of New Mexico
Office of the Lieutenant Governor

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of
Activities
For the Year Ended June 30, 2004

Net change in fund balances - total governmental funds (Statement of revenue, expenditures, and changes in fund balance)	\$ (29,684)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this is the amount by which capital outlay exceeded depreciation expense:	
Capital Outlay	\$ 16,510
Depreciation expense	<u>(6,212)</u> 10,298
Expenses recognized in the Statement of Activities not reported in governmental funds:	
Increase in compensated absences	<u>(9,821)</u>
Change in Net Assets of Governmental Activities	\$ <u><u>(29,207)</u></u>

See accompanying notes to the financial statements.

**State of New Mexico
Office of the Lieutenant Governor**

**Statement of Revenues, Expenditures - Budget and Actual
(Non-GAAP Budgetary Basis)
Governmental Fund
For the Year Ended June 30, 2004**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 2)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
State general fund appropriations	\$ 630,800	\$ 630,800	\$ 630,800	\$ -
Federal grants	<u>-</u>	<u>225,000</u>	<u>225,000</u>	<u>-</u>
Total Revenues	<u>\$ 630,800</u>	<u>\$ 855,800</u>	<u>\$ 855,800</u>	<u>\$ -</u>
Expenditures:				
Personal services/benefits	\$ 565,900	\$ 537,650	\$ 502,597	\$ 35,053
Contractual services	4,200	231,200	81,538	149,662
Other	60,700	75,700	69,202	6,498
Other financing uses	<u>-</u>	<u>11,250</u>	<u>11,250</u>	<u>-</u>
Total Expenditures	<u>\$ 630,800</u>	<u>\$ 855,800</u>	<u>\$ 664,587</u>	<u>\$ 191,213</u>

See the accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

A. Financial Reporting Entity

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

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

The Office of the Lieutenant Governor was created by the Constitution of New Mexico, Article V, Section I as adopted January 21, 1921 and subsequently amended by the people in General and Special Election from 1922 though 1984.

State of New Mexico
Office of the Lieutenant Governor

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Lieutenant Governor shall be president of the Senate, but shall vote only when the Senate is equally divided. She 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 insofar 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.
- c. Keep records of her activities and make an annual report to the Governor.
- d. Perform any other duties that may from time to time be assigned to her by the Governor.

The Lieutenant Governor is elected to a four-year term of office.

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

Basic Financial Statements – GASB Statement No. 34

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

The government-wide financial statements are designed to be corporate-like in that all governmental activities consolidated into columns that add to a total for the Office and consist of a statement of net assets and a statement of activities. These statements report all of the assets, liabilities, revenues, expenses and gains and losses of the office. Neither fiduciary funds nor component units that are fiduciary in nature are included in the government-wide statements.

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

The governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed more appropriate to demonstrate legal and

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

covenant compliance, to demonstrate the source and use of the liquid resources and to demonstrate how the Office's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

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

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

The standards set forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combined) for the determination of major funds. The 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 noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Non-Current Governmental Assets/Liabilities

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

D. Basis of Accounting

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

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

Contributions and other monies held by other state and local agencies are recorded, as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

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

E. Assets, Liabilities and Equity

1. Cash Deposits

All funds allotted to the Office of the Lieutenant Governor are appropriated from the State General Fund. These monies are held on deposit with the State Treasurer and are pooled and

State of New Mexico
Office of the Lieutenant Governor

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

invested by the State Treasurer's Office. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits.

2. Capital Assets

Property, plant, and equipment purchased or acquired at a value of \$1,000 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 is 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 expense 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.

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 80 to 160 hours per year, depending upon the length of service and employee's 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 and any excess is forfeited.

When employees terminate, they are compensated for accumulated unpaid vacation leave as of the date of termination, up to a maximum of thirty days (240 hours).

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 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, up to 1,000 hours, not to exceed 400 hours. The Office of the Lieutenant Governor had no employees with excess accrued sick leave at June 30, 2004.

State of New Mexico
Office of the Lieutenant Governor

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Reservations and Designations

Reservations of fund balance are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriated for future expenditures. Specific reservations of fund balance accounts are summarized below:

Reservations for Encumbrances - this reserve was created for encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the Office but not completed at the close of the fiscal year.

5. Net Assets

The government-wide financial statements utilize a net asset presentation. Net Assets are categorized as investment in fixed assets less outstanding liquid assets (net of related debt), restricted and unrestricted.

Investment in Fixed Assets (net of related debt) – is intended to reflect the portion of net assets which are associated with non-liquid capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

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

Unrestricted Asset – all funds received by the Office are restricted by the N.M. State Legislature or by grant agreement, and are classified as restricted net assets.

6. Use of Estimates

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 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 1. 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 category. Budgets are controlled at the "category" level within activities (personal services, employee benefits, etc).
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 basis that is not consistent with generally accepted principles (GAAP). Encumbrances are treated as the equivalent of expenditures for budgetary purposes and a budget is not prepared for the excess of revenues over expenditures, other financing uses, or fund balance. Budgetary comparisons presented in the financial statements are on a non-GAAP budgetary basis.

The Office has been designated as a "reverting agency" by the New Mexico state legislature and, therefore, unencumbered balances in state agency accounts remaining at the end of the fiscal year from appropriations made from the State General fund shall revert to the State General Fund, unless otherwise indicated in the General Appropriation Act or otherwise provided by law.

B. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported in the accompanying balance sheet as reservations of fund balance and do not constitute expenditures or liabilities. For budgetary purposes, current year encumbrances are treated as expenditures.

State of New Mexico
Office of the Lieutenant Governor

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

C. 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.

Note 3. DETAILED NOTES ON ALL FUNDS

A. Cash on Deposit

Cash on deposit with the State Treasurer's Office agrees to the cash balances of the Office as reported in the financial statements. Schedule 1 provides a detailed listing of cash balances by fund and account numbers.

B. Capital Assets

A summary of changes in capital assets follows:

	<u>Balance</u> <u>6/30/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/04</u>
Furniture & fixtures	\$ 1,154	\$ -	\$ -	\$ 1,154
Office equipment	8,145	-	-	8,145
Data processing	<u>29,148</u>	<u>16,510</u>	-	<u>45,658</u>
	38,447	16,510	-	54,957
Accumulated depreciation				
Governmental activities	<u>(22,498)</u>	<u>(6,212)</u>	-	<u>(28,710)</u>
Net capital assets	<u>\$15,949</u>	<u>\$ 10,298</u>	<u>\$ -</u>	<u>\$26,247</u>

The Office does not have any debt related to capital assets.

C. Accounts Payable

Accounts payable represents expenditures incurred as of June 30, 2004 but not paid until after that time.

State of New Mexico
Office of the Lieutenant Governor

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 3. DETAILED NOTES ON ALL FUNDS (continued)

D. Due to State General Fund

	<u>Balance</u> <u>6/30/2003</u>	<u>Additions</u>	<u>Balance</u> <u>6/30/2004</u>
Reversions to the State General Fund by the fiscal year of appropriation:			
Fiscal year 2002	\$ 4,693	\$ -	\$ 4,693
Fiscal year 2003	18,955	1,000	19,955
Fiscal year 2004	-	43,754	43,754
State dated warrants	120	-	120
Total amount due to the State General Fund	\$ 23,768	\$ 44,754	\$ 68,522

Outstanding reversions at June 30, 2003 of \$23,648 were not transferred to the State General Fund by September 30, 2003 as required. With the additional \$44,754 in reversions accruing in the current year, the total amount due to the State General Fund at June 30, 2004 grew to \$68,522. Of this amount, \$60,204 was transferred on September 30, 2004. The remaining \$8,318 is due within 45 days of release of the current year's audited financial statements.

E. Compensated Absences

The following is a summary of changes in compensated absences.

	<u>Balance</u> <u>6/30/03</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>6/30/04</u>	<u>Percentage</u> <u>Due Within</u> <u>One Year</u>
Annual Leave	\$ <u>6,315</u>	\$ <u>20,975</u>	\$ <u>11,154</u>	\$ <u>16,136</u>	100%

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

F. Encumbrances

Schedule 2 provides a detailed reconciliation of valid encumbrances.

G. Operating Leases

The Office leases equipment under operating leases. Operating leases do not give rise to property rights or lease obligation, and therefore, the results of the lease agreement are not reflected in the liabilities of the Office. Leases are subject to future appropriation and are

State of New Mexico
Office of the Lieutenant Governor

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 3. DETAILED NOTES ON ALL FUNDS (continued)

cancelable by the Office at the end of each fiscal year. Rental expenditure for the year ended June 30, 2004 was \$2,318.

Note 4. OTHER INFORMATION

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

Retirement Plan

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 12B, NMSA 1978). The requirements may be amended by acts of the legislature. The Public Employees' Retirement Association (PERA) is the administrator of the plan.

The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, NM 87504-2123.

Funding Policy. Plan members are required to contribute 7.42% of their gross salary. The Office of the Lieutenant Governor is required to contribute 16.59% of the gross covered salary. The Office's contributions to PERA for the years ended June 30, 2004, 2003 and 2002 were \$61,149, \$45,756, and \$41,480 respectively, equal to the amount of the required contributions for the year.

Deferred Compensation

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

Post-Employment Benefits

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 4. OTHER INFORMATION (continued)

The retiree Health Care Act (10-7C-1 to 10-7C-16, NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments of eligible retirees.

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers are institutions of higher education, school districts, or other entities participating in the public school insurance authority and state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Education retirement Act, the Magistrate Retirement Act or the Public Employees Retirement Act.

Eligible retirees are: (1) Retirees who made 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 Retiree Health Care Act on the person's behalf unless that person retires on or before July 1, 1995, in which event the time period for contributions shall become the period of time between July 1, 1990 and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990.

Each participating employer makes contributions to the fund in the amount of 1.3 percent of each participating employee's annual salary. Each participating employee contributes to the fund an amount equal to 0.65 of one percent of the employee's annual salary. Each participating retiree pays a monthly premium from \$23.20 to \$374.27 depending on the plan type and whether or not on Medicare and an additional fee of five dollars (\$5.00) if the eligible participant retired prior to the July 1, 1990 and made no contributions to the plan. Accounts for spouses and children are additional.

Contributions from participating employers and employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employer's operation or participation in the Retiree Health Care Act. The employer, employee and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee and retiree) and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 810 West San Mateo, Suite D, Santa Fe, New Mexico 87505. For the fiscal year ended June 30, 2004, the Office of the

State of New Mexico
Office of the Lieutenant Governor

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 4. OTHER INFORMATION (continued)

Lieutenant Governor remitted \$ 4,792 in employer contributions and \$ 2,396 in employee contributions.

B. Reconciliations Between GAAP Basis and Actual Budgetary Basis Statement

Revenue (budgetary basis)	\$ 855,800
Deferred revenue	(156,407)
Miscellaneous revenue	<u>2</u>
Revenue (GAAP Basis)	<u>\$ 699,395</u>
Expenditures (budgetary basis)	\$ 664,587
Prior year encumbrances paid	42,365
Accounts payable, end of year	3,050
Encumbrances, end of year	(23,601)
Accounts payable, beginning of year	<u>(2,076)</u>
Expenditures (GAAP Basis)	<u>\$ 684,325</u>

C. Risk Management

The Office of the Lieutenant Governor is exposed to various risks of loss. The Office carries insurance with the Risk Manage Division of the New Mexico General Services Department. Coverage is provided for the following:

General liability
Property
Civil rights

SUPPLEMENTARY INFORMATION

State of New Mexico
Office of the Lieutenant GovernorSchedule of Cash Accounts
June 30, 2004

	<u>Fund Number</u>	<u>Account Number</u>	<u>Amount</u>
General Fund:			
On deposit with State Treasurer:			
Operating Fund	177	01-360	\$ 255,525
Acting Governor Fund	754	01-360	<u>245</u>
Total			<u>\$ 255,770</u>

State of New Mexico
Office of the Lieutenant Governor

Year-End Budget and Encumbrance Analysis
June 30, 2004

General Fund

	<u>CAS Actual</u>	<u>CAS Encumbrances</u>	<u>Total</u>	<u>Invalid Encumbrances</u>	<u>Exhibit 7 Total</u>
Expenditures:					
Personal services/Benefits	\$ 502,597	\$ -	\$ 502,597	\$ -	\$ 502,597
Contractual services	68,593	12,945	81,538	-	81,538
Other costs	58,546	10,762	69,308	(106)	69,202
Other financing uses	11,250	-	11,250	-	11,250
Total expenditures	<u>\$ 640,986</u>	<u>\$ 23,707</u>	<u>\$ 664,693</u>	<u>\$ (106)</u>	<u>\$ 664,587</u>

State of New Mexico
Office of the Lieutenant Governor

Year-End Budget and Encumbrance Analysis
June 30, 2004

General Fund					
	Encumbrances Per DFA		Invalid Encumbrances	Encumbrances	Valid Encumbrances
	FY 2003	FY 2004		Reclassified As Accounts Payable	
Encumbrances					
Contractual services	\$ -	\$ 12,945	\$ -	\$ -	12,945
Other costs	1,448	10,762	(1,554)	(3,050)	7,606
Total encumbrances	\$ 1,448	\$ 23,707	\$ (1,554)	\$ (3,050)	\$ 20,551

See Auditor's Report.

State of New Mexico
Office of the Lieutenant Governor

Schedule of Expenditures of Federal Awards
June 30, 2004

	<u>Amount of Federal Award Expended</u>
<p>U.S. Department of Treasury (Passed through the N.M. Department of Finance and Administration): <i>Section 401(b) of the Jobs and Growth Tax Reconciliation Act of 2003</i> (CFDA No. - None)</p>	<p>\$ <u>68,593</u></p>

Note 1. Basis of Presentation: The accompanying *Schedule of Expenditure of Federal Awards* includes the federal grant activity of the State of New Mexico, Office of the Lieutenant Governor and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic, combining, and individual fund financial statements.

Note 2. Reporting Requirements: OMB Circular A-133 requires organizations that expend \$500,000 or more of federal awards in a single year to present a Schedule of Expenditures of Federal Awards in its audited financial statements. The Office of the Lieutenant Governor expended only \$68,593 of its federal award in the year ended June 30, 2004 and is not required to present a Schedule of Expenditure of Federal Awards in its audited financial statements. The Office has voluntarily elected to present this Schedule in the financial statements to provide additional disclosure to users of the financial statements.

GOVERNMENT AUDITING STANDARDS REPORT

Zlotnick, Laws & Sandoval, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
ONE CALLE MEDICO
SANTA FE, NEW MEXICO 87505

DAVID G. ZLOTNICK, CPA
ASA LAWS, CPA
RICHARD SANDOVAL, CPA

TELEPHONE (505) 982-3894
FAX (505) 982-3818

Report on Internal Control Over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Domingo P. Martinez, CGFM
State Auditor, and

Honorable Diane Denish
Lieutenant Governor, State of New Mexico
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, the major fund and the respective budgetary comparisons of the State of New Mexico, Office of the Lieutenant Governor, as of and for the year ended June 30, 2004, which collectively comprise the Office's basic financial statements and have issued our report thereon dated October 25, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of New Mexico, Office of the Lieutenant Governor's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings as items 04-1.

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

Zlotnick, Laws & Sandoval, P.C.
Zlotnick, Laws & Sandoval, P.C.
Certified Public Accountants

October 25, 2004

**State of New Mexico
Office of the Lieutenant Governor**

June 30, 2004

Schedule of Findings

Reversions

04-1

Condition:

The unexpended and unencumbered budget balances in Fund 177 (Operating Fund) has not been reverted to the State General Fund for the fiscal year ending 2003.

Criteria:

Pursuant to Section 6-5-10 NMSA 1978, all unreserved, undesignated fund balances in reverting funds and accounts at year end shall revert by September 30th to the State General Fund. The Office may adjust the reversion with 45 days of release of the audit report for that fiscal year.

Effect:

Non-compliance with State statute.

Cause:

Could not be determined.

Recommendation:

The Office should revert unexpended and unencumbered amounts as provided by State law.

Agency Response:

Outstanding reversions at June 30, 2003 of \$23,648 were not transferred to the State General Fund by September 30, 2003 as required. With the additional \$44,754 in reversions accruing in the current year, the total amount due to the State General Fund at June 30, 2004 grew to \$68,522. Of this amount, \$60,204 was transferred on September 30, 2004. The remaining \$8,318 is due within 45 days of release of the current year's audited financial statements.

**State of New Mexico
Office of the Lieutenant Governor**

June 30, 2004

Status of Prior Years Audit Findings

Finding

Status

Payroll and Related Compensated Absence Resolved

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

**State of New Mexico
Office of the Lieutenant Governor**

Exit Conference

June 30, 2004

The contents of this report were discussed at an exit conference held on November 19, 2004 with the following in attendance:

Office of the Lieutenant Governor

Sonya Carrasco-Trujillo, Chief of Staff

Department of Finance and Administration

Randell W. Eoff, CFO
Debra Griego, Director, ASD, DFA

Zlotnick, Laws & Sandoval, P.C.

Richard D. Sandoval, CPA - Partner
Donna Trujillo, CPA - Staff

We appreciate the many courtesies and assistance extended to us by the management and employees of the State of New Mexico, Office of the Lieutenant Governor and Department of Finance and Administration.