

STATE AUDITOR  
STATE OF NEW MEXICO  
OFFICE COPY

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

**Financial Statements and Schedules  
With Independent Auditors' Report Thereon**

**For the Fiscal Year Ended June 30, 2006**

RECEIVED

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STATE AUDITOR



## **OFFICE OF THE STATE AUDITOR**

**Hector H. Balderas**

February 7, 2007

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—2005-2006 Fiscal Year—Prepared by Zlotnick, Laws & Sandoval, PC

Your agency audit report was received by the Office of the State Auditor (Office) on December 15, 2006. 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.J.(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 pages 33 - 34. **It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments.** Section 2.2.2.10.J of the State Auditor's Rule 2.2.2 NMAC, *Requirements for Contracting and Conducting Audits of Agencies* requires that an exit conference be held with representatives of the agency's governing authority and top management. It does not appear from the audit report that a member of the governing authority was present.

HECTOR H. BALDERAS  
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  
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**State of New Mexico  
Office of the Lieutenant Governor**

**June 30, 2006**

**Official Roster**

Diane Denish

Lieutenant Governor

Chris Cervini

Chief of Staff

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

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**June 30, 2006**

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

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# Zlotnick, Laws & Sandoval, P.C.

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## Independent Auditors' Report

Domingo P. Martinez, CGFM  
State Auditor, and

Honorable Diane 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, 2006, which collectively comprise the Office's basic financial statements as listed in the table of contents. We also have audited the budgetary comparisons of the organizations of the general fund presented as supplementary information, for the year ended June 30, 2006 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 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 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 opinions.

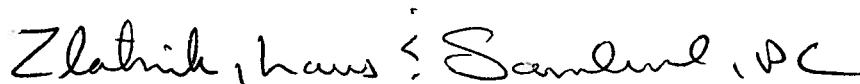
As discussed in Note 1, the financial statements of the State of New Mexico Office of the Lieutenant Governor are intended to present the financial position and changes of financial position of only that portion of the governmental activities and major fund of the State that is attributable to the transactions 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, 2006 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, 2006, and the respective changes in financial position thereof, and the respective budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparisons of the organizations of the general fund of the State of New Mexico, Office of the Lieutenant Governor for the year ended June 30, 2006, 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 December 1, 2006 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards 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 opinions on the financial statements that collectively comprise the Office's basic financial statements and on the budgetary comparisons presented as supplementary information. The accompanying supplementary information listed as schedules in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules 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  
December 1, 2006

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

**Management Discussion & Analysis**  
**June 30, 2006**

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, 2006. 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.

**Financial Highlights:**

- The Office's total net assets declined by \$6,285 in fiscal year 2006, from the year ended June 30, 2005.
- Expenditures during fiscal year 2006 declined by \$25,389 and revenue declined by \$16,860 from fiscal year 2005. However, expenditures were still less than revenue for the year by \$36,268.
- Capital assets decreased by \$7,632 over the prior year, due to full depreciation of several items.
- At the end of the current fiscal year the Office did not have an unreserved, undesignated fund balance for the general fund.
- We reduced our expenditures from the prior year and remained well within our budget of \$679,700.

**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.

The Office utilizes only one Fund which is the Office of the Lieutenant Governor's Operating Fund.



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

**Management Discussion & Analysis  
June 30, 2006**

Budgetary comparison schedules, or the *Statement of Revenue and Expenditures - Budget and Actual (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.*

**Financial Analysis of the Office as a Whole:**

**Condensed Financial Information:**

	<b><u>Governmental Activities</u></b>		
	<u>Current Year June 30, 2006</u>	<u>Prior Year June 30, 2005</u>	<u>Increase/ (Decrease)</u>
<b>Statement of Net Assets</b>			
Current assets	\$ 167,267	\$ 210,274	\$ (43,007)
Capital assets	8,862	16,494	(7,632)
Total Assets	<u>\$ 176,129</u>	<u>\$ 226,768</u>	<u>\$ (50,639)</u>
Current Liabilities	\$ 167,267	\$ 210,274	\$ (43,007)
Compensated absences:			
Due in less than one year	12,307	18,178	(5,871)
Total current liabilities	<u>179,574</u>	<u>228,452</u>	<u>(48,878)</u>
Noncurrent Liabilities:			
Compensated absences:			
Due in more than one year	4,849	325	4,524
Total liabilities	<u>\$ 184,423</u>	<u>\$ 228,777</u>	<u>\$ (44,354)</u>
Investment in capital assets	\$ 8,862	\$ 16,494	\$ (7,632)
Unrestricted net assets	(17,156)	(18,503)	1,347
Total net assets	<u>\$ (8,294)</u>	<u>\$ (2,009)</u>	<u>\$ (6,285)</u>
<b>Statement of Activities</b>			
General revenue:			
State general fund appropriations	\$ 618,900	\$ 623,000	\$ (4,100)
State special appropriations	6,300	8,100	(1,800)
Program Revenue:			
Section 401(b), Jobs and Growth			
Tax Reconciliation Act of 2003	27,170	38,130	(10,960)
Total Revenue	<u>652,370</u>	<u>669,230</u>	<u>(16,860)</u>

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

**Management Discussion & Analysis  
June 30, 2006**

Expenses: General government	<u>(607,770)</u>	<u>(633,159)</u>	<u>25,389</u>
Total Expenses before reversions	<u>(607,770)</u>	<u>(633,159)</u>	<u>25,389</u>
Other financing uses: Reversions	<u>(50,885)</u>	<u>(61,872)</u>	<u>10,987</u>
Change in net assets	(6,285)	(25,801)	19,516
Net assets, beginning of the year	(2,009)	23,792	(25,801)
Net assets, end of the year	<u>\$ (8,294)</u>	<u>\$ (2,009)</u>	<u>\$ (6,285)</u>

The financial position and results from operations for the Office of the Lieutenant Governor declined by \$6,285 in the year ended June 30, 2006. This resulted from a decline in capital assets book value by \$7,632 and a decrease in our compensated absences liabilities by \$1,347. Total state general fund appropriations decreased by \$5,900 from FY 05. The Office received a federal grant in FY 04 in the amount of \$225,000 from Section 401(b) of the Jobs and Growth Tax Reconciliation Act of 2003. This grant on the accrual basis of accounting reflects no change in the financial conditions for the Office, because the amount of recognized revenue is equal to the amount of incurred expenses. However, the use of the grant revenue did result in a decline of total assets of the Office by \$27,170 for federal grants expenses.

Capital Assets declined by \$7,632 in fiscal year ended 2006, from \$16,494 to \$8,862. The decline is from depreciation expense of \$7,632. The Office did not acquire or dispose of any capital assets in fiscal year 2006.

Current liabilities declined by \$53,825 during the year. There was \$27,170 in deferred revenue that was used in the year ended June 30, 2006. The \$225,000 in federal grants received in FY 04 has a remaining balance of \$91,107 which will be spent in future years and is considered a non-renewable grant. This grant will be exhausted as the funds are used, new sources of support, such as state general fund appropriations, will be required to continue the activities now being funded by the grant. There was also a decline of \$10,987 in reversions due to the state general fund from \$61,872 on June 30, 2005 to \$50,885 on June 30, 2006. These were offset by decreases in accounts payables of \$986, \$3,983 in accrued salaries and a decrease in compensated absences of \$1,347 for a total of \$6,316. The fund balance deficit of \$8,294 which is the result of compensated absences liabilities which will be paid as used by employees in the years taken from future year appropriations and sources.

Reversions outstanding as of June 30, 2005 were paid in fiscal year June 30, 2006. The Office reverted unexpended budget balances at June 30, 2006 to the state general fund as required by September 30, 2006.

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

**Management Discussion & Analysis  
June 30, 2006**

Compensated absences decreased by 7% during the year from \$18,503 at June 30, 2005 to \$17,156 based upon historical usage \$4,849.01 is considered 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 large increase in these non-cash expenses resulted in a deficit for unrestricted net assets at June 30, 2006 of \$17,156. 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 2006 are adequate to cover the potential disbursements.

Fund balance did show a sharp decline during the year. Unlike prior years however, there were no outstanding encumbrances for fiscal year ended June 30, 2006, since the remaining encumbrances were considered invalid and were not carried forward into fiscal year 2007.

Approved budgets were increased by \$54,500 during the year from the original amount of \$625,200 to \$679,700. The 9% increase is attributable to the federal grant awarded pursuant to Section 401(b) of the Jobs and Growth Tax Reconciliation Act of 2003, which was not spent in the fiscal year, ended June 30, 2005 and brought forward to fiscal year 2006. The federal funds were originally 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 \$601,485 are within the total allowed in the final approved budget by \$78,215. When compared to fiscal year 2005 budget there was a decrease of \$5,900 in state general fund appropriations and a decline of \$100,938 or 13% from \$780,638 in FY 05 to \$679,700 in FY 06 when including federal grants. The reason for the decline is that the cash balance from federal grants was less than from FY 05 and the Office budgeted only the amount of cash balance estimated to cover FY 06 expenditures.

**Economic Factors and Fiscal 2007's Budget:**

In FY 2006 overall employment growth in New Mexico was 2.8%. During FY 2006, New Mexico added 23,700 new jobs since June 2005. New Mexico ranks 9<sup>th</sup> out of all states in employment growth. Growth is diverse across all sectors, but mostly in the goods producing sectors (construction, resources extraction, and manufacturing), which represents 14 percent of total employment and makes up 36 percent of all new jobs. Oil, gas and construction are the fastest growing (14 and 9 percent respectively) and are at or near record employment levels. In job growth, the leaders are health care, social assistance and government, primarily local government – which includes Native American casinos and their enterprises. The construction industry continues to post strong growth at 5,200 new jobs from the same period last year. Manufacturing and information are showing gains of 1,400 and 400 jobs respectively in each industry from last year. All industries are showing positive year over year job gains. The unemployment rate in July 2006 was 4.4 percent – lower than last spring and all of FY 05. Personal income and wages salaries growth projections for the remainder FY 07 are both strong at about 6 percent each. General Fund revenues are experiencing unprecedented growth averaging over 12 percent growth for the last three consecutive years. Inflation is expected to remain at about 4 percent for the rest of the fiscal year

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

**Management Discussion & Analysis  
June 30, 2006**

Due to the small staff and budget for the Office of the Lt. Governor it is anticipated that most economic factors will not directly affect our financial position.

Budgeted state appropriations for expenditures were increased by \$10,800 from fiscal year 2006 to fiscal year 2007. The amount budgeted for state appropriations is \$636,000 in fiscal year 2007 and is more than the \$625,200 that was appropriated for fiscal year 2006. The Office also has \$91,107 available for budget of federal grants which it holds from the Jobs and Growth Tax Reconciliation Act of 2003. The portion to be used from federal awards for budget was not finalized at the time the audit report was completed.

**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

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

**Statement of Net Assets  
(Government-Wide)  
June 30, 2006**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 166,447
Other receivables	820
Noncurrent assets:	
Capital assets, net of depreciation	8,862
Total Assets	<u>176,129</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	10,543
Accrued salaries	14,613
Deferred revenue	91,107
Due to State General Fund	51,004
Current portion of compensated absences	12,307
Total current liabilities	<u>179,574</u>
Noncurrent liabilities:	
Noncurrent portion of compensated absences	4,849
Total Liabilities	<u>184,423</u>
<b>NET ASSETS</b>	
Invested in capital assets	8,862
Unrestricted	<u>(17,156)</u>
Total Net Assets	<u>\$ (8,294)</u>

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

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

**Statement of Activities  
(Government-Wide)  
For the Year Ended June 30, 2006**

	<u>Governmental Activities</u>
<b>Expenses:</b>	
State Ombudsman Program	\$ 574,315
Depreciation expenses	7,632
Compensated absences	(1,347)
Jobs Growth and Reconciliation Act	27,170
	<u>607,770</u>
 <b>Program Revenues:</b>	
Program-specific operating grants	<u>27,170</u>
Net program expense	<u>(580,600)</u>
 <b>Transfers:</b>	
State General Fund appropriations	618,900
Other State Funds	6,300
Reversions	<u>(50,885)</u>
Changes in net assets	(6,285)
Net assets, beginning of year	<u>(2,009)</u>
Net assets, end of year	<u><u>\$ (8,294)</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 Fund  
June 30, 2006**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 166,447
Accounts receivable	820
	820
Total Assets	\$ 167,267
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities:	
Accounts payable	\$ 10,543
Accrued salaries and benefits	14,613
Deferred revenue	91,107
Due to State General Fund	51,004
	51,004
Total Liabilities	167,267
<b>Fund balances:</b>	
Unreserved	-
Total Liabilities and Fund Balance	\$ 167,267

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

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

**Reconciliation of the Balance Sheet  
to the Statement of Net Assets  
Governmental Fund  
June 30, 2006**

Total fund balance for governmental fund		\$	-
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	49,135		
Accumulated depreciation	<u>(40,273)</u>		
Total capital assets			8,862
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:			
Compensated absences	<u>(17,156)</u>		
Total liabilities			<u>(17,156)</u>
Net assets of governmental activities		\$	<u><u>8,862</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, Expenditures and  
Changes in Fund Balance - Governmental Funds  
For the Year Ended June 30, 2006**

	<u>General Fund</u>
<b>Revenues:</b>	
Federal Grants	\$ 27,170
Total Revenues	<u>27,170</u>
<b>Expenditures:</b>	
Current: State Ombudsman Program	574,315
Jobs and Growth Tax Reconciliation Act of 2003	<u>27,170</u>
Total expenditures	<u>601,485</u>
Excess (deficiency) of revenues over expenditures	<u>(574,315)</u>
<b>Other financing sources (uses):</b>	
State General Fund appropriation	618,900
Other State Funds	6,300
Reversion fiscal year 2006	<u>(50,885)</u>
Total other financing sources (uses)	<u>574,315</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 Balance of  
Governmental Funds to the Statement of  
Activities-Governmental Funds  
For the Year Ended June 30, 2006**

Net change in fund balance - total governmental fund (Statement of revenues, expenditures, and changes in fund balance)	\$	-
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>No capital outlay expenditures are reported in the governmental fund for the fiscal year ended June 30, 2006. However, the statement of activities allocates the cost of capital assets over their estimated useful lives as depreciation expense. In the current period, depreciation expense was recorded as</p>		
		(7,632)
<p>Expenses recognized in the statement of activities, not reported in governmental funds:</p>		
Decrease in compensated absences		1,347
Change in Net Assets of Governmental Activities	\$	(6,285)

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 (Budgetary Basis)  
General Fund  
For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actuals</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
<b>Revenues:</b>				
General Fund Appropriation	\$ 618,900	\$ 618,900	\$ 618,900	\$ -
Other state funds	6,300	6,300	6,300	-
Total revenues	<u>625,200</u>	<u>625,200</u>	<u>625,200</u>	-
Cash balance budgeted	-	54,500	27,170	27,330
Total budgeted revenues and cash balance	<u>\$ 625,200</u>	<u>\$ 679,700</u>	<u>\$ 652,370</u>	<u>\$ 27,330</u>
<b>Expenditures:</b>				
Personal services and benefits	\$ 562,200	\$ 525,200	\$ 489,366	\$ 35,834
Contractual services	6,600	38,100	15,723	22,377
Other costs	56,400	116,400	96,396	20,004
Total expenditures	<u>\$ 625,200</u>	<u>\$ 679,700</u>	<u>601,485</u>	<u>78,215</u>
Net Total			<u>\$ 50,885</u>	<u>\$ 50,885</u>

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

State of New Mexico  
Office of the Lieutenant Governor

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Office of the Lieutenant Governor (Office) 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 Statement - 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.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2006**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 Elections from 1922 through 1984.

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 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.
- 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 governmental 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 consolidate 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.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2006**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which 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 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 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.

State of New Mexico  
Office of the Lieutenant Governor

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

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

State of New Mexico  
Office of the Lieutenant Governor

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2006**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2. Capital Assets**

Property, plant, and equipment purchased or acquired at a value of \$5,000 or greater are capitalized. New Mexico Laws of 2005, Chapter 237, Section 1 changed the capitalization threshold for movable chattel and equipment from items costing more than \$1,000 to \$5,000. Under this new law, items in the capital asset inventory that do not meet the new capitalization threshold continue to be depreciated in future periods.

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 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.

**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 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 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, 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, 2006.



State of New Mexico  
Office of the Lieutenant Governor

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**4. Reservations and Designations**

The accounting for the financial statements beginning July 1, 2004 were changed to the Modified Accrual method of accounting. In conjunction with this change in the basis of accounting, reservations of fund balances for encumbrances did not occur on the Office's financial statements for June 30, 2006.

**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 Capital 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) limitations on their use.

Unrestricted Assets - are assets that do not have third-party (statutory, bond covenant or granting agency) limitations on their use.

**6. Program Revenues**

Program revenues are from federal grants awarded by Section 401(b), Jobs and Growth Tax Reconciliation Act of 2003. Revenues are recognized when all applicable eligibility requirements, including time requirements are met. For the Office, these requirements are met each budget year after it has identified a spending plan and target dates for use of Fiscal Relief Funds. The funds not utilized in the current fiscal year are classified as Deferred Revenue in accordance with GASBS 33 and Department of Finance and Administration directives.

**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 THE FINANCIAL STATEMENTS**  
**June 30, 2006**

**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 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. In prior years the budgetary basis of accounting was not considered a GAAP basis of accounting. 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, unaccrued 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.

State of New Mexico  
Office of the Lieutenant Governor

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

**Note 3. DETAILED NOTES ON ALL FUNDS**

**A. Cash on Deposit**

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

**B. Accounts Receivable**

Accounts receivable represent a credit for overpayment of expenses in fiscal year 2005 that is due from General Services Department, another agency of the State of New Mexico. This will be applied to charges in fiscal year 2007 on automobile leasing.

**C. Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

<u>Cost</u>	<u>Balance 6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2006</u>
Office equipment	\$ 2,323	\$ -	\$ -	\$ 2,323
Furniture	45,659	-	-	45,659
Data processing	1,153	-	-	1,153
Total cost	<u>49,135</u>	<u>-</u>	<u>-</u>	<u>49,135</u>
<u>Accumulated depreciation</u>				
Office equipment	(1,277)	(388)	-	(1,665)
Data processing	(30,952)	(7,148)	-	(38,100)
Furniture	(412)	(96)	-	(508)
Total Accum. Depreciation	<u>(32,641)</u>	<u>(7,633)</u>	<u>-</u>	<u>(40,273)</u>
Net capital assets	<u>\$ 16,494</u>	<u>\$ (7,633)</u>	<u>\$ -</u>	<u>\$ 8,862</u>

The Office does not have any debt related to capital assets. Depreciation expense totaled \$7,632 for the year ended June 30, 2006.

State of New Mexico  
Office of the Lieutenant Governor

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

**Note 3. DETAILED NOTES ON ALL FUNDS (continued)**

**D. Accounts Payable**

Accounts payable represents expenditures incurred as of June 30, 2006, but not paid until July or August 2006.

**E. Accrued Payroll**

This represents 100% of the liability for the payroll period ending June 30, 2006.

**F. Due to State General Fund**

	Balance <u>6/30/2005</u>	<u>Payments</u>	<u>Additions</u>	Balance <u>6/30/2006</u>
Reversions to the State General Fund by the fiscal year of appropriations				
Fiscal year 2003	\$ 1,448	\$ 1,448	\$ -	\$ -
Fiscal year 2004	613	613	-	-
Fiscal year 2005	59,626	59,626	-	-
Fiscal year 2006	-	-	50,885	50,885
Stale dated warrants	185	185	117	117
Total amount due to the State General Fund	<u>\$ 61,872</u>	<u>\$ 61,872</u>	<u>\$ 51,002</u>	<u>\$ 51,002</u>

The outstanding reversions as of June 30, 2005 in the amount of \$61,872 were reverted within fiscal year 2006 as required. The additions for fiscal year 2003 and 2004 represent amounts that were disencumbered in fiscal year 2005 and became additional reversions due to the State General Fund. All reversions for fiscal year 2006 were remitted by September 30, 2006 as required by law.

**G. Deferred Revenue**

The following is a summary of changes in deferred revenue for the federal awards from the Jobs and Growth Tax Reconciliation Act of 2003.

	Original Grant <u>Balance</u>	Revenue earned in <u>Prior Years</u>	Revenue earned in <u>FY 06</u>	Balance <u>June 30, 2006</u>
Federal Awards Received	<u>\$ 225,000</u>	<u>\$ 106,723</u>	<u>\$ 27,170</u>	<u>\$ 91,107</u>

State of New Mexico  
Office of the Lieutenant Governor

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

**Note 3.            DETAILED NOTES ON ALL FUNDS (continued)**

**H. Compensated Absences**

The following is a summary of changes in compensated absences.

	<u>Balance</u> <u>6/30/2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>6/30/2006</u>	<u>Due within</u> <u>One Year</u>	<u>Due over</u> <u>One Year</u>
Annual Leave	<u>\$ 18,503</u>	<u>\$ 17,452</u>	<u>\$ 18,799</u>	<u>\$ 17,156</u>	<u>\$ 12,307</u>	<u>\$ 4,849</u>

Compensated absences are typically paid with general fund resources when used by employees. The Office had no liabilities for sick leave, since no employees had accrued at least 600 hours of sick leave.

**I. 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, 2006 was \$5,180.

**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, 2006, 2005 and 2004 were \$58,525, \$59,609 and \$61,149 respectively, equal to the amount of the required contributions for the year.

State of New Mexico  
Office of the Lieutenant Governor

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

**Note 4. OTHER INFORMATION (continued)**

**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**

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 (NMRHCA) on the person's behalf unless that person retires before the employers NMRHCA effective date, in which event, the time period for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990; and former Legislators who served at least two years.

State of New Mexico  
Office of the Lieutenant Governor

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

**Note 4. OTHER INFORMATION (continued)**

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 for the medical plus basic life plan and an additional fee of five dollars (\$5.00) if the eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator. Participants may also enroll in optional plans of coverage.

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 NMRHCA. 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, participating 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, 4308 Carlisle Blvd NE, Suite 104, Albuquerque, NM 87107. For the fiscal year ended June 30, 2006, the Office of the Lieutenant Governor remitted \$4,586 in employer contributions and \$2,293 in employee contributions.

**C. Risk Management**

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

- General Liability
- Property
- Civil rights

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

**Statement of Revenues and Expenditures  
Budget and Actual (Budgetary Basis)  
General Fund by Organization  
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actuals	Variance
	Original	Final		Favorable (Unfavorable)
<b>P638</b>				
Revenues:				
General Fund Appropriation	\$ 618,900	\$ 618,900	\$ 618,900	\$ -
Other state funds	6,300	6,300	6,300	-
Total revenues	<u>\$ 625,200</u>	<u>\$ 625,200</u>	<u>625,200</u>	<u>-</u>
Expenditures:				
Personal services and benefits	\$ 562,200	\$ 525,200	489,366	35,834
Contractual services	6,600	6,600	6,100	500
Other costs	56,400	93,400	78,849	14,551
Total expenditures	<u>\$ 625,200</u>	<u>\$ 625,200</u>	<u>574,315</u>	<u>50,885</u>
Total net revenue			<u>\$ 50,885</u>	<u>\$ 50,885</u>
	Budgeted Amounts		Actuals	Variance
	Original	Final		Favorable (Unfavorable)
<b>Org 0400 - Jobs &amp; Growth Tax Reconciliation Act of 2003</b>				
Federal funds rebudgeted	\$ -	\$ 54,500	\$ 27,170	\$ 27,330
Expenditures:				
Contractual services	\$ -	\$ 31,500	\$ 9,623	\$ 21,877
Other	-	23,000	17,547	5,453
Total net revenue	<u>\$ -</u>	<u>\$ 54,500</u>	<u>27,170</u>	<u>27,330</u>
Total net revenue			<u>\$ -</u>	<u>-</u>

See Auditor's Report



STATE OF NEW MEXICO  
OFFICE OF THE LIEUTENANT GOVERNOR

Schedule of Cash Accounts  
June 30, 2006

	<u>Fund Number</u>	<u>State Treasurer Balance</u>	<u>Outstanding Items</u>	<u>Book Balance</u>
<b>Governmental Funds:</b>				
Operating account	177	<u>\$ 166,691</u>	<u>\$ 244</u>	<u>\$ 166,447</u>

See Auditor's Report

Schedule 2

STATE OF NEW MEXICO  
OFFICE OF THE LIEUTENANT GOVERNOR

Schedule of Transfers  
For the Year Ended June 30, 2006

	Agency Number	CAS Fund	Transfers In	Transfers Out	Purpose
DFA - State General Fund	341	853	\$ 618,900	\$ -	State appropriation
DFA - Special Appropriations Fund	341	620	6,300	-	Compensation package
			<u>625,200</u>		
DFA - State General Fund	341	853	-	61,687	General Fund Reversion
DFA - State General Fund	341	853	-	185	State Dated Warrants
				<u>61,872</u>	
Totals			<u>\$ 625,200</u>	<u>\$ 61,872</u>	

See Auditor's Report

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

**Schedule of Expenditures of Federal Awards  
For the year ended June 30, 2006**

	<u>Amount of Federal Award Expended</u>
<b>U.S. Department of Treasury</b> (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)	<u>\$ 27,170</u>

**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 \$27,170 of its federal award in the year ended June 30, 2006 and is not required to present a Schedule of Expenditures 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.

See Auditor's Report

# Zlotnick, Laws & Sandoval, P.C.

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## **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**

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, 2006, which collectively comprise the Office's basic financial statements and have issued our report thereon dated December 1, 2006. 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. However, we noted certain matters involving the internal control over financial reporting and its operation that involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the Office of Lt. Governor's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items 06-1 to 06-2.

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.

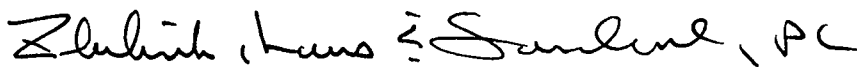
Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

#### 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted an additional matter that has been communicated to management for consideration about ways to implement "best practices" within their internal control system as it relates to employee leave. That item is described under "Other Management Communication" on page 36.

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.

Certified Public Accountants

December 1, 2006

**Office of the Lt. Governor**  
**Schedule of Findings**  
**June 30, 2006**

**Fraud Policy**

06-1

Condition:

The Office of the Lt. Governor has not formalized a policy in regards to the design and implementation of programs and controls to prevent, deter and detect fraud.

Criteria:

The auditor has a responsibility under Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. However, management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls and, along with those who have responsibility for oversight of the financial reporting process, set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud.

Cause:

The Office was not aware that they were not in compliance with fraud standards.

Effect:

The lack of formal policies or controls to prevent, deter a detect fraud may allow for opportunities to commit fraud.

Recommendation:

We recommend the Office of the Lt. Governor establish a formal Fraud Policy that addresses these fundamental elements: (a) create and maintain a *culture* of honesty and high ethics; (b) *evaluate* the risks of fraud and implement the processes, procedures, and controls needed to mitigate the risks and reduce the opportunities for fraud; and (c) develop an appropriate *oversight* process.

Agency Response:

We concur with this finding. Previously the Office of the Lt. Governor relied on the fraud policy and related training of the fiscal staff at the Department of Finance & Administration (DFA). That reliance was determined sufficient as DFA handles the fiscal transactions of the Office. However, the Office does agree that the implementation of its own policy would ensure that management's integrity and expectations are most clearly conveyed and plans to establish a policy during fiscal year 2007.

**Office of the Lt. Governor  
Schedule of Findings  
June 30, 2006**

**Cell Phone Use**

**06-2**

Condition:

The Office of the Lt. Governor maintains a cell phone policy that provides for an analysis of the cell phone bill to determine whether any calls made were for personal use. It also implies that the phone bill will be analyzed when the allotted plan minutes are exceeded. In our audit of forty-five (45) payment vouchers we selected a payment to Verizon Wireless that showed excess usage charges in six (6) of the eight (8) cell phones on the calling plan. We were unable to determine whether the phone bill was examined to determine if any of the calls were for personal purposes.

Criteria:

The Office of the Lt. Governor has established a cell phone policy that requires that the cell phone bills be reviewed for personal calls especially when the plan minutes are exceeded.

Cause:

The Office was unaware of the policy deficiencies due to turnover in staff.

Effect:

The Office of the Lt. Governor did not comply with its cell phone policy in the above instance.

Recommendation:

We recommend the Office of the Lt. Governor modify its procedure over the review of cell phone bills to ensure that it is in compliance with its cell phone policy. In addition, the Office of the Lt. Governor should consider changing its calling plan so it provides for more minutes each month if the previous overages were caused by legitimate business usage.

Agency Response:

We concur with this finding. The Office maintains a cell phone policy that requires an employee to reimburse the Office for non-work related calls. Due to the lack of a full staff, the Office was not ensuring employees reviewed the cell phone bills for identifying non-work related charges. Effective immediately, all employees will receive a copy of the cell phone bill for identifying non-work related charges and will return to the Office's executive assistant for review prior to submitting invoice to accounts payable for payment. The Office has also changed its calling plan to accommodate the additional minutes needed for legitimate business use.

**Office of the Lt. Governor  
Other Management Communication  
June 30, 2006**

**Leave Records**

The Office of the Lt. Governor does not currently maintain on file copies of employee Leave Request Forms for leave taken during a particular pay period.

We recommend that the Office of the Lt. Governor maintain copies of the employee Leave Request Forms on file in support of leave hours posted in the employee timesheets. The State of New Mexico is currently under an "exception" payroll reporting process and maintaining copies of the leave forms will help to ensure that all leave taken is posted to the system when payroll is approved by the supervisor. We believe this is a "best practice" that will assist the supervisor in verifying leave that has been posted by employees within the new SHARE system.



State of New Mexico  
Office of the Lieutenant Governor

June 30, 2006

Status of Prior Years Audit Findings

Finding

Status

There were no audit findings in the prior year.

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, 2006**

The contents of this report were discussed at an exit conference held on December 13, 2006 with the following in attendance:

**Office of the Lieutenant Governor**

Judith Espinosa, Chief of Staff

**Department of Finance and Administration**

Mackie Romero, CFO  
Debra Griego, Director, ASD, DFA  
Louise Romero, Financial Coordinator, DFA

**Zlotnick, Laws & Sandoval, P.C.**

Richard D. Sandoval, CPA - Partner

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.