

**FINANCIAL
STATEMENTS AND
REPORT OF
INDEPENDENT
CERTIFIED PUBLIC
ACCOUNTS**

**STATE OF NEW MEXICO
OFFICE OF THE SECRETARY OF STATE**

June 30, 2010

atkinson

PRECISE. PERSONAL. PROACTIVE.

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State of New Mexico
Office of the Secretary of State

OFFICIAL ROSTER

June 30, 2010

<u>Name</u>	<u>Title</u>
Ms. Mary Herrera	Secretary of State
Mr. Don Francisco Trujillo, II	Deputy Secretary of State
Ms. Dianne Brown	Chief Financial Officer



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Mr. Hector H. Balderas
New Mexico State Auditor
and
Ms. Mary Herrera
New Mexico Secretary of State
State of New Mexico

We have audited the accompanying financial statements of governmental activities, each major fund, the budgetary comparisons for the general fund and the major special revenue funds, and the aggregate remaining fund information of the Office of the Secretary of State (the Office), as of and for the year ended June 30, 2010, which collectively comprise the Office of the Secretary of State's basic financial statements, as listed in the table of contents. We have also audited the financial statements of the Office of the Secretary of State's non-major governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements and the respective budgetary comparison as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Office of the Secretary of State'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 with 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 the 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 A1, the financial statements of the Office of the Secretary of State, are intended to present the financial position and changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Office of the Secretary of State. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2010, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

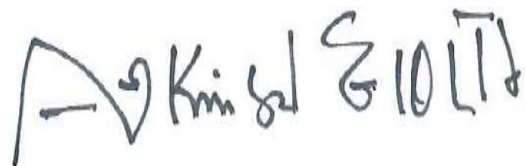
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the Secretary of State, as of June 30, 2010, and the respective changes in financial position and the respective budgetary comparisons of the general fund and major special revenue funds 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 respective financial position of the non-major governmental fund of the Office of the Secretary of State as of June 30, 2010, and the respective changes in financial position and the respective budgetary comparison of the non-major special revenue fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Office of Secretary of State adopted *Governmental Accounting Standard* No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, for the year ending June 30, 2010. See Note L.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2010, on our consideration of the Office of the Secretary of State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 6 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. 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 basic financial statements, and the combining and individual fund financial statements and budgetary comparison. The fiduciary schedule of changes in assets and liabilities – agency fund, and special appropriation schedule are presented for purposes of additional analyses and are not a required part of the financial statements. 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 basic financial statements taken as a whole.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized flourish on the left side.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
October 27, 2010

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Year ended June 30, 2010

Management's discussion and analysis (MDA) of the Office of the Secretary of State is designed to assist the reader in focusing on significant issues, provide an overview of the Office's financial activity, and identify changes in the Office's financial position for the fiscal year ended June 30, 2010.

This discussion and analysis is designed to focus on current fiscal year activities.

FINANCIAL HIGHLIGHTS

The Office of the Secretary of State's assets exceeded liabilities at the close of the June 30, 2010 fiscal year by \$8,137,693 (net assets) compared to \$10,546,979 at June 30, 2009. The decrease in net assets was primarily due to depreciation of capital assets of \$4,489,881 and a \$412,000 transfer to the State general fund from the public election fund. The Office of the Secretary of State receives its revenues from general fund appropriations and federal revenue from the Help America Vote Act (HAVA) and the U.S. Department of Health and Human Services for election assistance for individuals with disabilities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Office of the Secretary of State's financial statements. The financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other non-major combining fund statements. The Office has three major funds, one non-major fund, and an agency fund.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Office of the Secretary of State's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Office of the Secretary of State's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Office of the Secretary of State is improving.

The statement of activities presents information showing how the Office of the Secretary of State's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED) – CONTINUED**

Year ended June 30, 2010

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that has been segregated for specific activities or objectives. The Office of the Secretary of State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Office of the Secretary of State has one general fund, the general appropriation fund (Fund 18000). All State services are reflected in the general appropriation fund.

The Office of the Secretary of State adopts an annual appropriated budget for its general fund, public election fund and HAVA fund. Budgetary comparison statements have been provided to demonstrate compliance with their budgets. The Office is in compliance with its budgetary requirements.

Notes to the Financial Statements

The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements.

Federal Revenues

The Help America Vote Act (HAVA) was signed into law on October 29, 2002. It was enacted to assist states in the administration of Federal elections and to “establish minimum standards for states and units of local governments with the responsibility for the administration of Federal elections.” The Act includes provisions for statewide voter files, voting systems that are accessible to the disabled and language minorities, provisional voting, voter education, and election official training. The Act requires each state to submit a plan that meets the requirements of the Act.

The Office also has a grant from the U.S. Department of Health and Human Services to help individuals with disabilities with the election process and this activity is accounted for in the HAVA fund.

Governmental Activities

Governmental activities decreased the Office of the Secretary of State's net assets by \$2,409,286 for 2010 compared to a decrease of \$6,168,476 for 2009. Key elements of this change are as follows:

State of New Mexico
Office of the Secretary of State

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED) – CONTINUED**

Year ended June 30, 2010

SECRETARY OF STATE

Statement of Net Assets

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Current assets	\$ 4,917,565	\$ 4,788,688	\$ 128,877
Capital assets	<u>4,860,068</u>	<u>7,419,870</u>	<u>(2,559,802)</u>
Total assets	9,777,633	12,208,558	(2,430,925)
Current liabilities	977,935	1,387,854	(409,919)
Long-term liabilities	<u>662,005</u>	<u>273,725</u>	<u>388,280</u>
Total liabilities	1,639,940	1,661,579	(21,639)
Invested in capital assets	4,860,068	7,419,870	(2,559,802)
Restricted	4,042,568	3,564,095	478,473
Unrestricted deficit	<u>(764,943)</u>	<u>(436,986)</u>	<u>(327,957)</u>
Total net assets	<u>\$ 8,137,693</u>	<u>\$ 10,546,979</u>	<u>\$ (2,409,286)</u>

Statement of Activities

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Expenses:			
General government	\$ (10,051,310)	\$ (13,539,638)	\$ 3,488,328
Program revenues - federal grants	1,333,249	92,616	1,240,633
General revenues	6,391,941	7,306,940	(914,999)
Reversions to State general fund	<u>(83,166)</u>	<u>(28,394)</u>	<u>(54,772)</u>
(Decrease) in net assets	(2,409,286)	(6,168,476)	3,759,190
Net assets - beginning of year	<u>10,546,979</u>	<u>16,715,455</u>	<u>(6,168,476)</u>
Net assets - end of year	<u>\$ 8,137,693</u>	<u>\$ 10,546,979</u>	<u>\$ (2,409,286)</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED) – CONTINUED**

Year ended June 30, 2010

Statement of Net Assets Change from Prior Year

Net assets decreased by \$2,409,286 from the prior year due to the following factors.

- Capital assets decreased by \$2,559,802 primarily due depreciation of \$4,489,881 which was partially offset by \$1,930,079 in capital asset additions for fiscal year 2010.
- The decrease in current liabilities of \$409,910 from the prior year was primarily attributed to a decrease in amounts owed the State general fund.
- Investments in the State general fund investment pool and current assets increased by \$128,877 including a transfer of \$412,000 from the public election fund to the State general fund for State budget purposes.

Statement of Activities Change from Prior Year

General revenues decreased from the prior year by \$914,999 primarily due to decreased State general fund appropriations due to State budget cuts. Federal grant revenues increased from the prior year by \$1,240,633 as two new federal awards were received under the Help America Vote Act (HAVA) during fiscal year 2010. General government expenditures decreased by \$3,488,328 due to decreased election expenditures when compared to the prior year.

Individual Funds Balances and Analysis

General Fund

Significant balances and changes from the prior year are reported below:

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Investment in State general fund pool	\$ 804,155	\$ 2,365,897	\$ (1,561,742)
Accounts payable	83,535	596,522	(485,987)
Fund balance	-	1,107,066	(1,107,066)

Cash and fund balance decreased due to expenditure activity related to the primary election. Accounts payable decreased due to a decrease unpaid bills outstanding at June 30, 2010 compared with June 30, 2009.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED) – CONTINUED**

Year ended June 30, 2010

Capital Assets

Excluding the voting machines, the Office of the Secretary of State's investment in capital assets consists of computer equipment and software to improve the election reporting process. The current year additions were \$35,259 compared to \$254,538 for 2009. The fiscal year 2010 additions related to the statewide voter system hardware and software. Depreciation expense for the years ended June 30, 2010 and 2009 was \$4,489,881 and \$3,721,072, respectively.

Voting Machines

Included in capital assets is \$19,268,330 of voting machines purchased on behalf of 33 counties in the State of New Mexico in fiscal years 2007 and 2006. The current year additions related to the voting machines were \$1,894,800 in fiscal year 2010.

Long-term Debt

The Office's long-term debt consist of Board of Finance loans in the amount of \$636,272 not expected to be repaid until the State Legislature appropriates funding to repay the Board of Finance and the long-term portion of compensated absences in the amount of \$25,733.

Budgetary Highlights

General Fund - Final budgeted revenues and expenditures were higher than original budgeted revenues and expenditures due to approved budget adjustment request for cost associated with the 2010 primary election held in June of 2010.

Currently Known Facts and Conditions

During fiscal year 2007, the U.S. Election Assistance Commission (EAC) conducted an audit of the administration of payments received under the Help America Vote Act (HAVA) at the request of the current Secretary of State, Mary Herrera. The HAVA funds were expended by the previous administration of the Secretary of State's Office by December 31, 2006. The final report identified questioned costs of \$6,336,564. A final determination report from the Executive Director of the EAC was issued on August 12, 2008. The letter contained a listing of options to resolve the questioned cost. In a response letter dated November 14, 2008, the Office chose to resolve the questioned cost through the legislative process by amending the wording of previously issued legislation in order to broaden the scope of permissible use of an \$11,000,000 special appropriation that was expended in fiscal year 2007. On March 20, 2009, the legislature passed house bill 864, which amended Laws of 2006, Chapter 111, Section 67,

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED) – CONTINUED**

Year ended June 30, 2010

to allow the appropriation to be expended for election related advertising, voter education costs, and reimbursement to San Juan County for costs incurred prior to the availability of HAVA funds. This action prevented the loss of \$6.3 million in general fund monies that would have to be paid to the federal government. On February 18, 2010 the legislature passed house bill 198 which requires the Office, to maintain records of voting systems purchased in 2006 in the amount of \$19,268,330. This action resolved matters in relation to a prior year audit of the administration of payments under the Help America Vote Act (HAVA). HB 198 requires the Office to maintain records of voting systems and any component, including:

- 1) a description of each voting system and any of its components;
- 2) its serial number or other identification;
- 3) the name of the vendor, the titleholder, and the acquisition date;
- 4) its cost;
- 5) the percentage of federal participation covering the cost of acquisition;
- 6) its location, use and condition; and
- 7) its ultimate disposition, including the date of disposal and sale price.

As of September 22, 2010, the EAC considers all remedies from the State of New Mexico to be sufficient and considers the 2007 audit to be closed.

Requests for Information

This financial report is designed to provide a general overview of the Office of the Secretary of State's finances for all those with an interest in the Office of the Secretary of State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Secretary of State, 325 Don Gaspar, Suite 300, Santa Fe, New Mexico 87503.

State of New Mexico
Office of the Secretary of State

STATEMENT OF NET ASSETS

June 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Investments in state general fund pool	\$ 4,696,648
Due from Federal government	209,312
Accrued interest receivable	627
Other assets	<u>10,978</u>
Total current assets	4,917,565
Capital assets:	
Voting machines held for counties at year-end	19,268,330
Computer equipment	1,232,240
Less: accumulated depreciation	<u>(15,640,502)</u>
Total capital assets, net of depreciation	<u>4,860,068</u>
Total assets	<u><u>\$ 9,777,633</u></u>
LIABILITIES	
Current liabilities:	
Loans payable to Board of Finance - current portion	\$ 550,105
Payroll related liabilities	133,991
Accounts payable	83,535
Due to state general fund (35000)	107,366
Compensated absences - current portion	<u>102,938</u>
Total current liabilities	977,935
Long-term liability:	
Compensated absences - less current portion	25,733
Loans payable to Board of Finance - long-term	<u>636,272</u>
Total liabilities	1,639,940
NET ASSETS	
Invested in capital assets	4,860,068
Restricted for public election fund	2,555,515
Restricted for HAVA program	1,456,855
Restricted for arbitration fund	30,198
Unrestricted deficit	<u>(764,943)</u>
Total net assets	<u>8,137,693</u>
Total liabilities and net assets	<u><u>\$ 9,777,633</u></u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Secretary of State

STATEMENT OF ACTIVITIES

Year ended June 30, 2010

	Governmental Activities
EXPENSES	
Other	\$ 2,171,687
Contractual	812,389
Personnel cost	2,577,353
Depreciation expense	4,489,881
Total expenses	10,051,310
 PROGRAM REVENUES - federal grants	 1,333,249
Net program expense	(8,718,061)
 GENERAL REVENUES	
State general fund appropriations	4,987,787
Other financing sources	1,500,000
Other financing uses	(412,000)
Other income	316,154
Total general revenues	6,391,941
Reversions to state general fund-FY10	(83,166)
Net general revenues	6,308,775
Changes in net assets	(2,409,286)
Net assets - beginning of year	10,546,979
Net assets - end of year	\$ 8,137,693

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Secretary of State

BALANCE SHEET – GOVERNMENTAL FUNDS

Year ended June 30, 2010

	Major Funds				Total
	General Fund (SHARE 18000)	Public Election Fund (SHARE 81200)	HAVA Fund (SHARE 90300)	Other Governmental Funds	
ASSETS					
Investment in state general fund pool	\$ 804,155	\$ 2,577,784	\$ 1,284,516	\$ 30,193	\$ 4,696,648
Due from federal government	-	-	209,312	-	209,312
Accrued interest	-	395	227	5	627
Other assets	9,442	1,536	-	-	10,978
Total assets	<u>\$ 813,597</u>	<u>\$ 2,579,715</u>	<u>\$ 1,494,055</u>	<u>\$ 30,198</u>	<u>\$ 4,917,565</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Loans payable from the Board of Finance (34100)	\$ 550,105	\$ -	\$ -	\$ -	\$ 550,105
Accounts payable	83,535	-	-	-	83,535
Payroll related liabilities	133,991	-	-	-	133,991
Due to state general fund	45,966	24,200	37,200	-	107,366
Total liabilities	813,597	24,200	37,200	-	874,997
Fund balances					
Spendable:					
Restricted for:					
HAVA program	-	-	1,456,855	-	1,456,855
Public election fund	-	2,555,515	-	-	2,555,515
Arbitration fund	-	-	-	30,198	30,198
Unassigned	-	-	-	-	-
Total fund balances	<u>-</u>	<u>2,555,515</u>	<u>1,456,855</u>	<u>30,198</u>	<u>4,042,568</u>
Total liabilities and fund balances	<u>\$ 813,597</u>	<u>\$ 2,579,715</u>	<u>\$ 1,494,055</u>	<u>\$ 30,198</u>	<u>\$ 4,917,565</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Secretary of State

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS**

Year ended June 30, 2010

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance - total governmental funds	\$ 4,042,568
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:	
Voting machines held on behalf of counties	19,268,330
Computer, software and furniture	1,232,240
Less: accumulated depreciation	<u>(15,640,502)</u>
Net capital assets	4,860,068
Board of finance loans not expected to be repaid with current financial resources and therefore are not reported in the funds.	(636,272)
Compensated absences payable are longer term obligations and therefore, not reported on the balance sheet of the governmental funds.	<u>(128,671)</u>
Net assets of governmental activities	<u>\$ 8,137,693</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Secretary of State

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**

Year ended June 30, 2010

	Major Funds				Total Governmental Funds
	General Fund (SHARE 18000)	Public Election Fund (SHARE 81200)	HAVA Fund (SHARE 90300)	Other Government Funds	
Revenues					
Federal revenues	\$ -	\$ -	\$ 1,333,249	\$ -	\$ 1,333,249
Miscellaneous revenues	-	41,473	-	-	41,473
Interest	-	3,491	271,147	43	274,681
Total revenues	-	44,964	1,604,396	43	1,649,403
Expenditures					
Current expenditures					
Personnel services	2,565,257	-	-	-	2,565,257
Contractual services	735,907	-	76,482	-	812,389
Other costs	1,174,318	711,551	285,818	-	2,171,687
Capital outlay	1,930,079	-	-	-	1,930,079
Total expenditures	6,405,561	711,551	362,300	-	7,479,412
Excess (deficiency) of revenues over expenditures	(6,405,561)	(666,587)	1,242,096	43	(5,830,009)
Other financing sources (uses)					
State general fund appropriations	4,958,600	-	29,187	-	4,987,787
Other financing uses	-	(412,000)	-	-	(412,000)
Other financing sources	385,861	1,500,000	-	-	1,885,861
Other expenditures-reversion-FY10	(45,966)	-	(37,200)	-	(83,166)
Net other financing sources (uses)	5,298,495	1,088,000	(8,013)	-	6,378,482
Net change in fund balance	(1,107,066)	421,413	1,234,083	43	548,473
Fund balance, beginning of year	1,107,066	2,134,102	222,772	30,155	3,494,095
Fund balance, end of year	\$ -	\$ 2,555,515	\$ 1,456,855	\$ 30,198	\$ 4,042,568

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Secretary of State

**RECONCILIATION OF THE CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year ended June 30, 2010

Net change in fund balances - total governmental funds	\$ 548,473
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlay additions are recorded as expenditures in the government funds but capitalized in the statement of net assets	1,930,079
Depreciation expense is recorded in the statement of activities but not recorded as a expenditure in the governmental funds	(4,489,881)
Net increase in long-term loans from board of finance	(385,861)
Net decrease in compensated absences recorded in the statement of activities as a reduction in expense but not recorded in the governmental funds as a reduction in expenditures	<u>(12,096)</u>
Change in net assets of governmental activities	<u>\$ (2,409,286)</u>

The accompanying notes area an integral part of this financial statement.

State of New Mexico
Office of the Secretary of State

**STATEMENT OF REVENUES AND EXPENDITURES (BUDGETARY BASIS)
MAJOR GOVERNMENTAL FUNDS – GENERAL FUND (SHARE 18000)**

Year ended June 30, 2010

<u>General Fund (SHARE 18000)</u>	<u>Budget Original</u>	<u>Budget Final</u>	<u>Actual Amount Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue				
General fund appropriations	\$ 4,645,000	\$ 4,458,600	\$ 4,458,600	\$ -
Special appropriations	500,000	500,000	500,000	-
Board of Finance short-term loans	-	385,861	385,861	-
Total revenue	5,145,000	5,344,461	5,344,461	-
Fund balance carry forward	<u>1,177,066</u>	<u>1,177,066</u>	<u>1,107,066</u>	<u>(70,000)</u>
Total revenues budgetary basis	<u>\$ 6,322,066</u>	<u>\$ 6,521,527</u>	6,451,527	<u>\$ (70,000)</u>
Expenditures				
Personal service/employee	\$ 2,658,000	\$ 2,617,190	2,565,257	\$ 51,933
Contractual services	787,700	532,684	532,405	279
Other	1,199,300	1,694,587	1,630,833	63,754
2010 primary election	1,500,000	1,500,000	1,500,000	-
Campaign reporting	161,500	161,500	161,500	-
Political financial reporting	15,566	15,566	15,566	-
Total expenditures (single year)	<u>\$ 6,322,066</u>	<u>\$ 6,521,527</u>	<u>6,405,561</u>	<u>\$ 115,966</u>
Excess of revenue and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	45,966	<u>\$ 45,966</u>
Less: Request to pay prior year bills included in accounts payable			-	
Less fund balance carry forward			(1,107,066)	
Less reversion FY10			<u>(45,966)</u>	
Change in fund balance per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			<u>\$ (1,107,066)</u>	

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Secretary of State

**STATEMENT OF REVENUES AND EXPENDITURES (BUDGETARY BASIS)
MAJOR GOVERNMENTAL FUNDS – PUBLIC ELECTION FUND (SHARE 81200)**

Year ended June 30, 2010

Public Election Fund (SHARE 81200)	Budget Original	Budget Final	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenues				
Other financing sources	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ -
Miscellaneous revenues	-	-	41,473	41,473
Interest	-	-	3,491	3,491
Prior year fund balance		412,000	2,134,102	1,722,102
Total revenues	\$ 1,500,000	\$ 1,912,000	3,679,066	\$ 1,767,066
Expenditures				
Other costs	\$ 1,500,000	\$ 1,500,000	711,551	\$ 788,449
Transfers	-	412,000	412,000	-
Total expenditures (single year)	\$ 1,500,000	\$ 1,912,000	1,123,551	\$ 788,449
Excess of revenue and other financing sources over expenditures and transfers			2,555,515	
Less prior year fund balance not revenue for GAAP purposes			(2,134,102)	
Change in fund balance per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			\$ 421,413	

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Secretary of State

**STATEMENT OF REVENUES AND EXPENDITURES (BUDGETARY BASIS)
MAJOR GOVERNMENTAL FUND – HAVA FUND (SHARE 90300)**

Year ended June 30, 2010

HAVA Fund (SHARE 90300)	Budget Original	Budget Final	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue				
Federal funds	\$ 643,085	\$ 743,085	\$ 1,333,249	\$ 590,164
State appropriations	-	-	29,187	29,187
Other financing sources	-	-	-	-
Interest	-	-	271,147	271,147
Total revenue	643,085	743,085	1,633,583	890,498
Fund balance carry forward	-	222,772	222,772	-
Total revenues (budgetary basis)	<u>\$ 643,085</u>	<u>\$ 965,857</u>	1,856,355	<u>\$ 890,498</u>
Expenditures				
Personal service/employee benefits	\$ -	\$ -	-	\$ -
Contractual services	-	222,772	76,482	146,290
Other costs	643,085	743,085	323,018	420,067
Total expenditures (single year)	<u>\$ 643,085</u>	<u>\$ 965,857</u>	399,500	<u>\$ 566,357</u>
Excess of revenue and other financing sources over expenditures			1,456,855	
Fund balance carry forward			<u>(222,772)</u>	
Change in fund balance per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			<u>\$ 1,234,083</u>	

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Secretary of State

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES –
AGENCY FUND (79900)**

Year ended June 30, 2010

	<u>Agency Fund</u>
Assets	
Investment in State general fund pool	<u>\$ 749,869</u>
Liabilities	
Due to State general fund (85300)	<u>\$ 749,869</u>

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Office of the Secretary of State have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Office's accounting policies are described below.

1. Reporting Entity

In accordance with the constitution and laws of the State of New Mexico, the Secretary (the Office) shall supervise, administer, and furnish supplies for elections; publish the statistical Blue Book; act as depository for legislative records; supervise the publication of Session Laws; record and file all public official bonds, oaths, and executive names and trademarks; commission notaries public; serve as statutory agent for service of process for nonresident motorists and foreign corporations; publish the Election Code and State Constitution with amendments; file musical copyrights; handle trading stamp registrations; administer Uniform Commercial Code, etc.; file instruments for Public Utilities and Railroads; furnish and file forms relating to the Conflict of Interest Act; and administer the Lobbyist Registration Act.

The financial reporting entity as defined by GASB 14 consists of the primary government, organizations for which the primary government is financially accountable and other organizations whose exclusion from the financial reporting entity would cause the financial statements to be misleading.

A primary government is any state government or general-purpose local government and the organizations that make up its legal entity. The Office is not included in any other governmental "reporting entity" as defined by GASB. The Secretary is elected by the public and has decision making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

Criteria for determining the entity for financial reporting purposes are whether the governing body exercises oversight responsibility. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The financial statements include all the fund and account groups of the Office over which the Secretary exercises operating control. The Office has no blended or discretely present component units during the year ended June 30, 2010.

The Secretary of State is a component unit of the State and these financial statements include all funds and activities over which the Secretary of State has oversight responsibility.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Government-Wide and Fund Financial Statements

Governmental Accounting Standards Board Statement No. 34 – As of fiscal year ended June 30, 2003 and forward, the Office follows GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34) as amended by GASB Statement 37 and 38. This statement affects the manner in which the Office records transactions and presents financial information. State governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports. GASB 34 establishes a new reporting model, much like private-sector financial reports, for the annual financial reports of state governments. The new format was developed to make annual reports of state governments easier to understand and more useful to users of governmental financial information.

Management’s Discussion and Analysis – GASB 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the Office’s financial activities in the form of management’s discussion and analysis (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Basic financial statements consist of the following:

- Government-wide financial statements,
- Fund financial statements, and
- Notes to the basic financial statements.

The government-wide financial statements (the statement of net assets and the statement of activities) report information of all the nonfiduciary activities of the Office, thus the agency fund is not included. The effect of material interfund activity has been removed from these government-wide statements.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include grants and contributions that are restricted to meeting the operational requirements of the Office. Taxes, if any, and other items not properly included among program revenues are reported instead of general revenues. The Office does not allocate general government expenses to other functions other than to administrative services. The Office does not apply FASB pronouncements issued after November 30, 1989.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Government-Wide and Fund Financial Statements – Continued

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Resources created by enabling legislation are “legally enforceable”, meaning that the government can be compelled by an external party such as citizens or public interest groups to use the resources for the purposes specified by the legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Office’s policy to use restricted resources first, then unrestricted resources as they are needed. Investments in capital assets reflect the portion of net assets which are associated with non-liquid, capital assets. Unrestricted net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets”.

Governmental funds are reported as major funds in the accompanying financial statements if they meet both of the following criteria.

- *Ten percent criterion.* An individual governmental fund reports at least 10 percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures.
- *Five percent criterion.* An individual governmental fund reports at least 5 percent of the total for both governmental and enterprise funds of any one of the items for which it met the 10 percent criterion.

The Office’s three major governmental funds are as follows:

General Fund (SHARE 18000) – The general fund is the general operating fund of the Office and is used to account for all financial resources except those required to be accounted for in another fund. It is accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Any unused funds revert to the State general fund.

Public Election Fund (SHARE 81200) – The public election fund, a special revenue fund, is funded through State appropriations and was established by legislation of 1-19A-10 NMSA for the purposes of:

- a. Financing the election campaign of certified candidates for covered offices;
- b. Paying administrative and enforcement costs of the Voter Action Act (1-19A-1 to 1-19A-17 NMSA 1978); and
- c. Carrying out all other specified provisions of the Voter Action Act.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Government-Wide and Fund Financial Statements – Continued

This is a non-reverting fund. The fund receives certain fee income from inspection and supervision fees pursuant to 62-8-8 NMSA 1978, utility and carrier inspection fees pursuant to 63-7-20 NMSA 1978, and insurance premium tax pursuant to 59A-6-2 NMSA 1978. See 1-19A-10D NMSA 1978.

Help America Vote Act Fund (HAVA) (SHARE 90300) – The HAVA fund is the special revenue fund used to account for the Federal funds received relating to the Help America Vote Act of 2002. Federal funds received in advance are recorded as deferred revenue. Revenue is recorded when the expenditure is incurred, using the modified accrual basis of accounting. The HAVA fund also receives State funds pursuant to federal matching requirements. This is a non-reverting fund, restricted to specified purposes by the Help America Vote Act. In fiscal year 2009 the Office received \$37,200 for purposes of providing State matching funds toward a federal grant received through the Help America Vote Act. Laws of 2009, Chapter 124 section 5 item 22 requires unexpended matching amounts to revert to the State general fund as of June 30, 2010. A reversion expense has been recorded in the HAVA Fund (SHARE 90300) of \$37,200 as the amount was not expended as of June 30, 2010. In fiscal year 2010 the Office received an additional \$29,981 toward federal matching requirements from Bernalillo County.

The Office's non-major special revenue governmental fund is as follows:

Arbitration Fund (SHARE 02500) – Chapter 112 Laws 1997 – An arbitration hearing shall be conducted by a single arbitrator selected within ten days by the person against whom the penalty has been imposed from a list of five arbitrators provided by the Secretary of State. Neither the Secretary of State nor a person subject to the Lobbyist Regulation Act, Campaign Reporting Act, or Financial Disclosure Act may serve as an arbitrator. Arbitrators shall be considered to be independent contractors, not public officers or employees, and shall not be paid per diem or mileage. This is a non-reverting fund.

The Office's fiduciary fund is as follows:

Fiduciary Fund Type (SHARE 79900) – for Notary Public and other fees, an agency fund is used to report assets held for others and are not available to support Office activities. The agency fund is accounted for an accrual basis of accounting and is used to account for the collection of various fees that are remitted to State general fund.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The financial activities of the Office are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Office uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The measurement focus is on the flow of expendable financial resources, rather than on net income determination. The following are the governmental fund types used:

The Governmental fund types (general and special revenue) use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (when they become both measurable and available). “Measurable” means the amount of the transaction can be determined. “Available” means collectible within the current period or soon enough thereafter (60 days at most) to be used to pay liabilities of the current period. Revenues, which are recognized when they become both measurable and available, include intergovernmental revenues and interest earnings. Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule include: accrued vacation and sick leave which are recorded when payable from current available financial resources.

Revenues derived from federal and State grants are recognized and recorded as receivables when the related expenditures are incurred and all other eligibility requirements are met. Amounts expended under federal and State grants for which payment is not expected to be received within 60 days are recorded as deferred revenue. Likewise, amounts received from federal and State grants which have not been expended are recorded as deferred revenue. Interest income is recorded when earned.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Budgets and Budgetary Accounting

The Office follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to September 1, the Office submits to State Budget – Financial Control Division, Department Finance and Administration (DFA), and the Legislative Finance Committee (LFC) an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.
- b. Following their budget hearings with the Office, the DFA and the LFC prepare their own budget recommendations to the legislature.
- c. Budget hearings are then scheduled before the finance committees of the New Mexico House of Representatives and Senate. The final outcome of these hearings is incorporated into the general appropriations act.
- d. The Office then submits, on or before May 1, an annual operating budget request to the State Budget Division who reviews the request and subsequently approves the budget based upon the appropriation made by the legislature. The DFA approved operating budget becomes effective on July 1. All subsequent budget transfers and increases must be authorized by the Director of the State Budget Division.
- e. Budgetary control is exercised by the Office at the appropriation unit level. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.
- f. Legal budgetary control for expenditures and encumbrances is by category of line item.
- g. The non budgeted funds for the Office are the Arbitration and the Agency funds.
- h. Appropriations lapse at the end of the fiscal year except for those amounts related to goods and services received by June 30th or are multi-year appropriations.
- i. In accordance with the requirements of Section 2.2.2 10.A (2) (b) of 2.2.2. NMAC *Requirements for Contracting and Conducting Audits of Agencies* and the requirements established by GASB 34 footnote 53, the budgetary comparison statement for the general fund has been included as part of the basic financial statements.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Modified Accrual and Budgetary Basis of Accounting

Per the General Appropriation Act, Laws of 2007, Chapter 28, Section 3, item N, “For the purpose of administering the General Appropriation Act of 2007 and approving operating budgets, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the Department of Finance and Administration”. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year’s budget. Encumbrances related to single year appropriations lapse at year-end. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget. For fiscal year 2010, there was \$0 of accounts payable paid past the statutory deadline. Reconciling items between GAAP and the budgetary basis for budgeted funds for the general fund and public election funds are presented on the face of the statements. There was no budget for the arbitration fund for fiscal year 2010 due to a low volume of expected activity.

6. Capital Assets

Capital assets, which include computer equipment and voting machines, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the State as assets which have a cost of \$5,000 or more at the date of acquisition, pursuant to Section 12-6-10 NMSA 1978. Assets purchased before 2006 were capitalized if cost exceeded \$1,000. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated capital assets are recorded at their fair market value at the date of donation. Capital assets acquired in the current year in the governmental funds are recorded as capital outlay expenditures in the governmental fund financial statements.

Capital assets of the Office are depreciated on the straight-line method over the estimated useful life of three years for computer equipment, and over five years for voting equipment held for counties.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Accrued Compensated Absences

The Office accrues vacation and sick time liability in the government-wide financial statements. The governmental fund financial statements record the expenditure when the employees are paid or when compensated absences are expected to be liquidated with expendable available financial resources in the governmental funds. Vacation and sick leave earned and not taken is cumulative; however, sick pay up to 600 hours is forfeited upon termination of State service and vacation is limited to 240 hours. Sick leave accumulated in excess of 600 hours, not to exceed 120 hours, is payable semiannually to qualified employees at a rate equal to 50 percent of their hourly rate. Upon retirement, sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50 percent hourly rate. Historically, all compensated absences have been paid out of the general fund.

8. 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 to 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.

9. Fund Balances/Net Assets

In the governmental fund financial statements the Office classifies fund balances into spendable and nonspendable classifications. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The spendable classifications are detailed below:

Restricted Fund Balances

In the governmental fund financial statements *restrictions* of fund balance are reported when constraints placed on the use of resources are either: (1) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Specific reservations of the fund balance account are summarized below:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. Fund Balances/Net Assets - Continued

The amount of net assets restricted at June 30, 2010 is summarized below:

Restricted for public election fund	\$ 2,555,515
Restricted for HAVA program	1,456,855
Restricted for arbitration fund	<u>30,198</u>
	<u>\$ 4,042,568</u>

Subsequent to year-end, the arbitration fund was eliminated through administration action of the Office and Department of Finance and Administration.

The restrictions are due to enabling legislation.

Committed Fund Balances

In the governmental fund financial statements *committed* fund balances are reported when amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Secretary of State through policy action). The Office has no *committed* fund balances as of June 30, 2010.

Assigned Fund Balances

In the governmental fund financial statements *assigned* fund balances are reported when amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. In fiscal year 2010 the Office established a policy authorizing the Secretary of State to assign amounts for a specific purpose. The Office has no *assigned* fund balances as of June 30, 2010.

Unassigned Fund Balances

In the governmental fund financial statements *unassigned* fund balances are reported to reflect residual fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The Office has no *unassigned* fund balances. Generally, the Office would first apply committed resources when an expense is incurred for purposes for which both committed, assigned, or unassigned fund balances are available.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – INVESTMENTS, STATE TREASURER

Investments of the Office consist of its interest in the State general fund investment pool, which is managed by the New Mexico State Treasurer by statute. The fair value of the investments maintained at the New Mexico State Treasurer’s Office at June 30, 2010 is as follows:

SHARE FUND NO.	Fund Description	Fair Value June 30, 2010
18000	General fund	\$ 804,155
81200	Public election fund	2,577,784
90300	HAVA fund	1,284,516
02500	Arbitration fund	30,193
Total interest in investment pool per governmental funds		\$ 4,696,648

The Office did not have any other investments during the year ended June 30, 2010. For additional GASB 40 disclosures information related to the above investment pool, including interest rate risk, and credit risk, the reader should refer to the separate audit report of the New Mexico State Treasurer for the fiscal year ended June 30, 2010. There were no reconciling items at June 30, 2010.

State of New Mexico
Office of the Secretary of State

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE C – CAPITAL ASSETS

The following is the capital assets activity for the year ended June 30, 2010.

	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>
Computer equipment, software and furniture	\$ 1,196,981	\$ 35,259	\$ -	\$ 1,232,240
Voting equipment held for counties	<u>17,373,510</u>	<u>1,894,820</u>	<u>-</u>	<u>19,268,330</u>
Total capital asset	18,570,491	1,930,079	-	20,500,570
Less accumulated depreciation				
Computer equipment, software and furniture	(726,515)	(257,251)	-	(983,766)
Less accumulated depreciation				
Voting equipment held for counties	<u>(10,424,106)</u>	<u>(4,232,630)</u>	<u>-</u>	<u>(14,656,736)</u>
Total accumulated depreciation	<u>(11,150,621)</u>	<u>(4,489,881)</u>	<u>-</u>	<u>(15,640,502)</u>
Net capital assets	<u>\$ 7,419,870</u>	<u>\$ (2,559,802)</u>	<u>\$ -</u>	<u>\$ 4,860,068</u>

Depreciation expense was \$4,489,881 for fiscal year 2010. The Office does not own any infrastructure assets or nondepreciable assets as of June 30, 2010.

NOTE D – CHANGES IN LONG-TERM OBLIGATION

The following is a summary of transactions for the compensated absences for the year ended June 30, 2010, which the general fund will pay for in future years.

	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>
Accumulated annual and sick leave	<u>\$ 116,575</u>	<u>\$ 110,105</u>	<u>\$ (98,009)</u>	<u>\$ 128,671</u>

The current portion of the compensated absences obligation is \$102,938.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE E – ADVANCE LOANS FROM BOARD OF FINANCE

Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010	Short Term	Long Term
\$ 150,000	\$ -	\$ -	\$ 150,000	\$ -	\$ 150,000
41,111	-	-	41,111	-	41,111
59,300	-	-	59,300	-	59,300
-	385,861	-	385,861	-	385,861
550,105	-	-	550,105	550,105	-
<u>\$ 800,516</u>	<u>\$ 385,861</u>	<u>\$ -</u>	<u>\$ 1,186,377</u>	<u>\$ 550,105</u>	<u>\$ 636,272</u>

In fiscal year 2008, the Office received emergency loans in the amount of \$550,105 for cost associated with the primary election held in June 2008. The loan is expected to be repaid in fiscal year 2011.

In fiscal year 2009, the Office received \$150,000 for purposes of paying for additional ballots used in the general election. The loan is expected to be repaid in future years and will require the appropriation of additional funds.

In fiscal year 2009, the Office received \$41,111 for purpose of paying for an election recount. The loan is expected to be repaid in fiscal years and will require the appropriation of additional funds.

In fiscal year 2009, the Office received \$59,300 to pay for Oracle licensing fees for VREMS and maintenance and support services for the public financial reporting system. The loan is expected to be repaid in future years and will require the appropriation of additional funds.

In fiscal year 2010 the Office received an emergency loan of \$385,861 for shortfalls related to the 2010 primary election. The loan is expected to be repaid in future years and will require the appropriation of additional funds.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE F – RETIREMENT BENEFITS-PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description – Substantially all of the Office’s full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, 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, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. That report is also available on PERA’s website at www.pera.state.nm.us.

Funding Policy – Plan members are required to contribute 8.92% of their gross salary. The Office is required to contribute 15.09% of the gross covered salary. The contribution requirements of the plan members and the Office are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the Legislature. The Office’s employer contributions to PERA for the years ending June 30, 2010, 2009, and 2008 were \$282,457, \$313,942, and \$267,730, respectively, equal to the amount of the required contributions for each year.

NOTE G – POST RETIREMENT BENEFITS-RETIREE HEALTH CARE

Plan Description. The Office contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE G – POST RETIREMENT BENEFITS-RETIREE HEALTH CARE – CONTINUED

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. In the fiscal years ending June 30, 2011 through June 30, 2010 the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contributions Rate</u>	<u>Employee Contribution Rate</u>
FY11	1.666%	.833%
FY12	1.834%	.917%
FY13	2.000%	1.000%

Employers joining the program after January 1, 1998, are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee, and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Office's contributions to the RHCA for the year ended June 30, 2010, 2009, and 2008 were \$22,953 \$21,269, and \$18,421, respectively, which equal the required contributions for each year.

State of New Mexico
Office of the Secretary of State

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE H – REVERSION DUE TO STATE GENERAL FUND

The current year reversion due to the State general fund from the Office's general fund is \$45,966. The balances due to the State general fund at June 30, 2010 consist of the following:

	General Fund (SHARE 18000)	HAVA Fund (SHARE 90300)	Public Election Fund	Total
Reversion payable FY09	\$ 28,394	\$ -	\$ 24,200	\$ 52,594
Add: Reversion expense 2010	45,966	37,200	-	83,166
Deduct operating transfers to State general fund	<u>(28,394)</u>	<u>-</u>	<u>-</u>	<u>(28,394)</u>
Reversion and due to State general fund payable 2010	<u>\$ 45,966</u>	<u>\$ 37,200</u>	<u>\$ 24,200</u>	<u>\$ 107,366</u>

General Fund SHARE (18000) reversion expense by source

Source	Description	Unexpended amount
Laws of 2009, Chapter 124 section 4	FY 10 general fund appropriation	\$ 115,966
Laws of 2007, SB 826 Ch 31, Sec 305	Less beginning unreserved deficit	<u>(70,000)</u>
	Total	<u>\$ 45,966</u>

HAVA Fund SHARE (90300) reversion expense by source

Source	Description	Unexpended amount
Laws of 2009, Chapter 124, section 5, item 22	State matching funds for federal grant	\$ 37,200
		<u>-</u>
	Total	<u>\$ 37,200</u>

HAVA matching requirements were net through expenditure of general fund resources on qualified HAVA purpose.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE I – COMMITMENTS AND CONTINGENCIES

1. Risk Management

The Office is exposed to various risks of loss for which the Office carries insurance (Auto; Employee Fidelity Bond; General Liability, Civil Rights, and Foreign Jurisdiction; Money and Securities; Property; and Workers' Compensation). The Office obtains its coverages with the State of New Mexico Risk Management Division (RMD). Any claims are processed through RMD. There are no material matters outstanding at June 30, 2010.

2. Operating Leases

The Secretary of State leases certain equipment under operating leases. Leases are subject to future appropriations and as such are cancelable by the Secretary of State at the end of a fiscal year. Rental expense under operating leases for the year ended June 30, 2010 was \$38,957. Future lease payments are as follows:

2011	\$ 17,100
2012	<u>13,452</u>
Total	<u><u>\$ 30,552</u></u>

NOTE J – TRANSFERS

<u>Transfers to Other Agencies</u>				
From Fund	Agency	To Fund	Transfer Amount	Purpose of the Transfer
81200	State General Fund	85300	\$ 412,000	To reduce state budget deficits
<u>Transfers from Other Agencies/County</u>				
To Fund	Agencies/ counts	From Fund	Transfer Amount	Purpose of the Transfer
18000	DFA	85300	\$ 4,958,600	State Appropriations
18000	DFA	85300	385,861	Board of Finance loan proceeds for primary election costs
81200	DFA	85300	1,500,000	Voter Action Act
90300	Bernalillo County	N/A	29,187	State matching funds for HAVA

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE K – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before financial statements are issued. The Office recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Office’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date and before financial statements are available to be issued.

The Office has evaluated subsequent events through October 27, 2010, which is the date the financial statements are available to be issued. No events or transactions were identified for recording or disclosure.

NOTE L – NEW ACCOUNTING STANDARDS

In February of 2009 the Government Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* effective for periods beginning after June 15, 2010. This standard was issued to provide increased clarity for fund balance type definitions and for classification rules for fund balances. The Office early adopted this standard in fiscal year 2010. GASB Statement No. 54, paragraph 36 requires retroactive restatement of fund balances for all prior periods presented. The beginning fund balance for governmental funds was restated as follows:

	General Fund -18000	Public Election Fund - 81200	HAVA Fund - 90300	Arbitration Fund - 02500	Total
Beginning reserved fund balances, as previously reported	\$ 1,107,066	\$ 2,134,102	\$ 222,772	\$ 30,155	\$ 3,494,095
Reclassification adjustment	<u>(1,107,066)</u>	<u>(2,134,102)</u>	<u>(222,772)</u>	<u>(30,155)</u>	<u>(3,494,095)</u>
Beginning reserved fund balances, as restated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

State of New Mexico
Office of the Secretary of State

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE L – NEW ACCOUNTING STANDARDS – CONTINUED

	General Fund -17000	Public Election Fund - 81200	HAVA Fund - 90300	Arbitration Fund - 02500	Total
Beginning restricted fund balances, as previously reported	\$ -	\$ -	\$ -	\$ -	\$ -
Reclassification adjustment	<u>1,107,066</u>	<u>2,134,102</u>	<u>222,772</u>	<u>30,155</u>	<u>3,494,095</u>
Beginning restricted fund balances, as restated	<u>\$1,107,066</u>	<u>\$2,134,102</u>	<u>\$222,772</u>	<u>\$30,155</u>	<u>\$3,494,095</u>

SUPPLEMENTARY INFORMATION

State of New Mexico
Office of the Secretary of State

BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUND – ARBITRATION FUND (02500)

Year ended June 30, 2010

	Arbitration (SHARE 02500)	Total
Assets		
Investments, State Treasurer	\$ 30,193	\$ 30,193
Due from federal award	-	-
Accrued interest	5	5
	<hr/>	<hr/>
Total assets	<u>\$ 30,198</u>	<u>\$ 30,198</u>
Liabilities and fund balance		
Accounts payable	\$ -	\$ -
Fund balance	30,198	30,198
	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 30,198</u>	<u>\$ 30,198</u>

State of New Mexico
Office of the Secretary of State

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – NON-MAJOR
SPECIAL REVENUE FUND – ARBITRATION FUND (02500)**

Year ended June 30, 2010

	Arbitration (SHARE 02500)	Total
Federal revenues	\$ -	\$ -
Revenues - interest income	43	43
Total revenues	43	43
Expenditures	-	-
Excess revenues over expenditures	43	43
Other financing sources		
State general fund appropriations	-	-
Net changes in fund balances	43	43
Fund balance, beginning of year	30,155	30,155
Fund balance, end of year	\$ 30,198	\$ 30,198

OTHER SUPPLEMENTARY INFORMATION

State of New Mexico
Office of the Secretary of State

**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES –
AGENCY FUND (79900)**

Year ended June 30, 2010

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</u>
Assets - Due from general fund	<u>\$ 744,218</u>	<u>\$ 1,156,756</u>	<u>\$ 1,151,105</u>	<u>\$ 749,869</u>
Liabilities - Due to State general fund	<u>\$ 744,218</u>	<u>\$ 1,156,756</u>	<u>\$ 1,151,105</u>	<u>\$ 749,869</u>

State of New Mexico
Office of the Secretary of State

SUPPLEMENTAL SCHEDULE OF SPECIAL APPROPRIATIONS

Year ended June 30, 2010

<u>Description</u>	<u>Authority</u>	<u>SHARE Fund</u>	<u>Total Original Appropriation</u>
For costs associated with the 2010 primary election	Laws of 2009, Chapter 124 Section 5 Item 21	18000	\$ 1,000,000
Campaign reporting	Laws of 2008, Chapter 3 Section 7 Item 17	18000	176,500
Voter registration management system	Laws of 2008, Chapter 3 Section 7 Item 19	18000	150,000
For costs associated with the 2010 general election	Laws of 2010, Chapter 6 Section 5 Item 4	18000	500,000
To provide matching funds for a federal grant through the Help America Vote Act	Laws of 2009, Chapter 124 Section 5 Item 22	90300	37,200

<u>Appropriation Period</u>	<u>Prior Year Expenditures</u>	<u>Current Year Expenditures</u>	<u>Current Funds not Expended</u>	<u>Outstanding Encumbrances</u>	<u>Current Year Reversion Amount</u>	<u>Unencumbered Balances</u>
2009-2010	\$ -	\$ 1,000,000	\$ -	\$ -	\$ -	\$ -
2008-2010	15,000	161,500	-	-	-	-
2008-2010	134,434	15,566	-	-	-	-
2010-2011	-	500,000				
2009-2010	-	-	37,200	-	37,200	-
	<u>\$ 149,434</u>	<u>\$ 1,677,066</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



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

Mr. Hector Balderas
New Mexico State Auditor
And
Ms. Mary Herrera
New Mexico Secretary of State
State of New Mexico

We have audited the accompanying financial statements of governmental activities, each major fund, the budgetary comparison for the General Fund and Major Special Revenue Funds and the aggregate remaining fund information of the Office of the Secretary of State (the Office), as of and for the year ended June 30, 2010, which collectively comprise the Office of the Secretary of State's basic financial statements, as listed in the table of contents. We have also audited the financial statements of the Office of the Secretary of State's non-major governmental fund and respective budgetary comparison presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010, as listed in the table of contents, and have issued our report thereon dated October 27, 2010. 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 Office of the Secretary of State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over financial reporting.

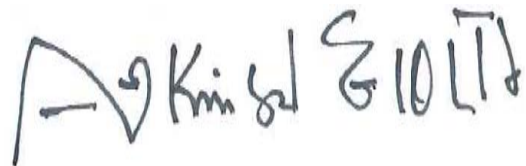
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses, as defined above. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as described above.

Compliance and Other Matters

As a 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*.

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

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' and a smaller 'K'.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
October 27, 2010

State of New Mexico
Office of the Secretary of State

SCHEDULE OF FINDINGS AND RESPONSES

Year ended June 30, 2010

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

CURRENT YEAR FINDINGS

None

PRIOR YEAR FINDINGS

Compliance Audit Finding Required by Government Auditing Standards

09-01 Procurement Violations Election System & Software-Resolved

09-02 Procurement Violation File One Inc.-Resolved

Findings in Accordance with OMB Circular A-133

07-03 Noncompliance with HAVA – Equipment Management – Significant Deficiency – Resolved

FINANCIAL STATEMENT PREPARATION AND EXIT CONFERENCE

Year ended June 30, 2010

Financial Statement Preparation

The financial statements were prepared with the assistance of the independent certified public accounting firm performing the audit. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are current and in balance. Management has reviewed and approved the financial statements.

Exit Conference

An exit conference was held on October 25, 2010, to discuss the audit. The following individuals were in attendance:

State of New Mexico - Office of the Secretary of State

Don Francisco Trujillo, II – Deputy Secretary of State
Dianne Brown – CFO

Independent Auditor - Atkinson & Co., Ltd.

Martin Mathisen, CPA, CGFM, Audit Director
Morgan Browning, CPA, CGFM, Audit Manager

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