



**STATE OF NEW MEXICO**

**DIANNA J. DURAN**

**SECRETARY OF STATE**

**Financial Statements and Schedules  
With Independent Auditor's Report**

**For Fiscal Year Ended June 30, 2012**

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

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OFFICE OF THE SECRETARY OF STATE**

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

**Official Roster**

**June 30, 2012**

<u>Name</u>	<u>Title</u>
Dianna J. Duran	Secretary of State
Mary Quintana	Deputy Secretary of State
Ken Ortiz	Chief of Staff
Ellie Ortiz	Director of Finance and Administration

## **INDEPENDENT AUDITOR'S REPORT**

Mr. Hector H. Balderas  
New Mexico State Auditor  
and  
Ms. Dianna J. Duran  
New Mexico Secretary of State

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information and the budgetary comparisons for the general fund and major special revenue funds of the State of New Mexico, Office of the Secretary of State (Office) as of and for the year ended June 30, 2012, which collectively comprise the Office's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the Office's non-major governmental fund as of and for the year ended June 30, 2012 as listed in the table of contents. These financial statements are the responsibility of the Office'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 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 1, 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 financial reporting entity 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, 2012 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, 2012, and the respective changes in financial position, and cash flows where applicable, thereof and the respective budgetary comparisons for the general fund and the 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 each nonmajor governmental fund of the Office as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2012, on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, individual fund financial statements, and the budgetary comparisons. The additional schedules listed as "other supplementary information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Zlotnick, Laws & Sandoval, P.C.

Zlotnick, Laws & Sandoval PC  
December 5, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2012

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, providing an overview of the Office's financial activity, and identifying changes in the Office's financial position for the fiscal year ended June 30, 2012. This discussion and analysis is designed to focus on current fiscal year activities.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements have three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

#### Government-Wide Financial Statements

Government-wide financial statements report information about the Office of the Secretary of State as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the agency's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

#### Fund Financial Statements

The fund financial statements provide more detailed information about the Office of the Secretary of State's most significant funds. Funds are accounting devices that the Office of the Secretary of State uses to keep track of specific sources of funding and spending for particular purposes. The Office of the Secretary of State has four major funds and one non-major fund.

The Office of the Secretary of State has the following funds:

- Governmental funds - Most of the Office of the Secretary of State's basic services are included in governmental funds, which focus on how cash and other financial assets that can be easily converted to cash and the (nonreverting) balances left at year-end that are available for spending.
- Fiduciary funds - The Office of the Secretary of State maintains one fund to account for monies held on behalf of others. The fund is purely custodial in nature and is not included as a measurement of the results of operations.

### **Budget Comparison Statement**

The budget comparison statement presents the original and final appropriated budget for the reporting period as well as actual inflows and outflows stated on the budgetary basis. A separate column reports the variance between the final budget and the actual amounts.

### **Government-Wide Financial Statements**

The government-wide condensed financial information is displayed in the table below. Comparative information from the previous fiscal year is included for the reader's information.

State of New Mexico  
Office of the Secretary of State

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2012

**Condensed Financial Information:**

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>Percent Change</u>
<b>STATEMENT OF NET ASSETS</b>				
<b>ASSETS</b>				
Current and other assets	\$ 2,786,541	\$ 3,330,639	\$ (544,098)	-16.34%
Capital assets, net	<u>820,028</u>	<u>1,564,854</u>	<u>(744,826)</u>	<u>-47.60%</u>
Total assets	<u>3,606,569</u>	<u>4,895,493</u>	<u>(1,288,924)</u>	<u>-26.33%</u>
<b>LIABILITIES</b>				
Current liabilities	953,559	1,125,700	(172,141)	-15.29%
Long term liabilities	<u>62,900</u>	<u>1,043,302</u>	<u>(980,402)</u>	<u>-93.97%</u>
Total liabilities	<u>1,016,459</u>	<u>2,169,002</u>	<u>(1,152,543)</u>	<u>-53.14%</u>
<b>NET ASSETS</b>				
Invested in capital assets	820,028	1,564,854	(744,826)	-47.60%
Restricted	1,862,927	2,257,165	(394,238)	-17.47%
Unrestricted	<u>(92,845)</u>	<u>(1,095,530)</u>	<u>1,002,685</u>	<u>-91.53%</u>
Total net assets	<u>\$ 2,590,110</u>	<u>\$ 2,726,489</u>	<u>\$ (136,379)</u>	<u>-5.00%</u>
<b>STATEMENT OF ACTIVITIES</b>				
<b>REVENUES</b>				
Program revenues	\$ 95,441	\$ 120,352	\$ (24,911)	-20.70%
General revenue, net of transfers	<u>8,833,708</u>	<u>7,087,571</u>	<u>1,746,137</u>	<u>24.64%</u>
Total revenues	8,929,149	7,207,923	1,721,226	23.88%
<b>EXPENSES</b>				
Executive	<u>9,065,528</u>	<u>12,619,125</u>	<u>(3,553,597)</u>	<u>-28.16%</u>
Change in net assets	(136,379)	(5,411,202)	5,274,823	-97.48%
Net assets, beginning of year	<u>2,726,489</u>	<u>8,137,691</u>	<u>(5,411,202)</u>	<u>-66.50%</u>
Net assets, end of year	<u>\$ 2,590,110</u>	<u>\$ 2,726,489</u>	<u>\$ (136,379)</u>	<u>-5.00%</u>



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2012

### FINANCIAL HIGHLIGHTS

The financial position and results from operation for the Office of the Secretary of State during the year ended June 30, 2012, are detailed above. Total assets at June 30, 2012, were \$3,606,569. This includes Interest in State General Fund Investment Pool, \$2,339,026; due from other state agencies, \$375,327; due from federal grants \$39,233; supplies and inventory, \$32,955; and capital assets, \$820,028, net of accumulated depreciation of \$20,114,997. Total liabilities were \$1,016,459, which includes current liabilities of \$953,559 and long term liabilities of \$62,900. Net assets include unrestricted net assets of (\$92,845), restricted net assets totaling \$1,862,927 and \$820,028 invested in capital assets.

Total revenues for the year ended June 30, 2012 were \$8,929,149. This includes state general fund appropriation of \$5,520,978, net of reversion; revenue from other financing sources, \$3,308,232; interest income, \$4,498; and charges for services, \$16,600; miscellaneous income \$39,608; and revenue from federal grants, \$39,233. Total expenses were \$9,065,528. The total change in net assets for the year was (\$136,379), resulting in a net asset balance of \$2,590,110 as of June 30, 2012. The amount due to the state general fund was \$93,322.

Net assets at the close of fiscal year 2012 were \$2,590,110 compared to \$2,726,491 at June 30, 2011. The decrease in net assets was primarily due to depreciation of capital assets.

### INDIVIDUAL FUND HIGHLIGHTS

The fund financial statements provide more detailed information about the Office of the Secretary of State, which include the public election fund, arbitration fund, capital outlay, and grants. The recurring general fund appropriation in fiscal year 2012 was \$4,351,300. Notwithstanding language was included in the General Appropriation Act authorizing \$1,054,000 from the public election fund be used to cover election related expenses. A special and supplemental general fund appropriation totaling \$1,263,000 and a \$417,100 grant from the Board of Finance absorbed remaining primary election related expenses.

Total fund balances was \$1,895,882, which includes \$1,831,074 from the public election fund; \$1,555 from HAVA; and \$30,298 from the arbitration fund, all of which are restricted funds. The restricted funds are non-reverting funds used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The Office of the Secretary of State receives its revenues from general fund appropriations, public election fund appropriations, a capital outlay appropriation from the sale of severance tax bonds and federal revenue from the Help America Vote Act (HAVA). Federal funding under HAVA has been significantly reduced, and is no longer available for many of the types of assets previously purchased using HAVA funds, such as voting systems.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2012

The Office of the Secretary of State is responsible for monitoring and maintaining the notary fund. The fund is not an operating fund but is purely custodial and thus does not involve a measurement of results of operations. The fund is deposited into the State general fund.

The Office also increased its budget in the public election fund to distribute nearly \$810,000 to eight candidates certified under the Voter Action Act for use during the 2012 election cycle.

### Capital Assets

The Office's capital assets for the year ended June 30, 2012, increased by \$439,686 because of expenditures funded by the capital outlay appropriation. This includes information technology upgrades, including computers, servers and disaster recovery upgrades. The Office disposed of \$859,519 of capital assets that were obsolete and no longer in service and incurred a loss on the disposition of \$36,154. The Office does not own real property or infrastructure assets.

### Long Term Liabilities

Long term liabilities decreased by \$980,402 because the Office requested and the Board of Finance approved converting emergency loan balances of \$1,016,350 to grants.

### **Agency Highlights**

Article V, Section 1, of the New Mexico Constitution created the Office of the Secretary of State. The Secretary of State may be elected for two consecutive four-year terms and is second in line behind the lieutenant governor to assume the responsibilities of the governor. The Secretary of State is the keeper of the Great Seal of the State of New Mexico and affixes the seal to all commissions issued in the name of the state and signed by the governor. Article V, Section 2, of the New Mexico Constitution requires the returns of every election for state officers be sealed and transmitted to the Secretary of State who, with the governor and State Supreme Court chief justice, constitute the state canvassing board. The Bureau of Elections is responsible for administering the state Election Code.

The mission of the Office of the Secretary of State is to administer elections and government ethics in accordance with state and federal law and to maintain and provide access to the laws, official acts, and other instruments vital to the efficient operation of state government. It is also the mission of the Secretary of State to file and maintain records vital to the interests of commerce and industry.

Agency accomplishments include:

- Resolving 11 of 12 fiscal year 2011 audit findings;
- In May 2012, receiving approval from the Board of Finance to convert its \$1,016,400 million outstanding loan balance to grants;

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2012

- Collecting \$708,000 in statutorily defined fee, which were remitted to the state general fund;
- Reducing operating costs by either switching vendors or shifting services in-house;
- Making certain forms that once had to be purchased for the counties available electronically.
- Reducing presidential primary expenses by nearly \$350,000 (fiscal year 2008, which encompassed the last presidential primary election, expenses were approximately \$7,319,000 compared to fiscal year 2012 expenses, which were \$6,969,100).

### **Economic Factors and Next Year's Budget**

The fiscal year 2013 budget request was \$6,624,700, the appropriation was \$6,276,700. The Office has historically received appropriations that fall short of meeting statutory obligations. The Office has held back on filling vacancies and applying its vacancies savings toward its budget shortfall, however it will not be enough and a supplemental appropriation will be requested during the 2013 legislative session.

Statutes direct the Secretary of State to either reimburse or provide a number of election related items and services to the counties. Few spending caps restricting the amount counties can expend are cited in the statutes. This places the Office at a disadvantage when it is trying to project expenses that are largely controlled at the county level. In the meantime, the Office will continue to identify cost saving measures.

The Office is responsible for three public facing mission critical applications. There is a critical need to improve the long neglected applications. The applications are as follows:

1. Voter Registration and Election Management System – a centralized voter registration system containing registered voters and history. It is the central hub required for conducting all statewide and local elections.
2. Secretary of State Knowledgebase – cashiering system for fees related to uniform commercial code filings, notary registrations, partnerships, authentications, service of process, trademark filings, and agricultural liens.
3. Campaign Finance Information System – tracking system of campaign contributions and expenditures of candidates, political action committees and lobbyists.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year ended June 30, 2012

In addition, the voting systems which the State purchased and are in the care and custody of the counties, are reaching their end of life. The Office will request a capital outlay appropriation to address replacing voting systems.

**Requests for Information**

This financial report is designed to provide a general overview of the Office of the Secretary of State. If you have questions regarding this report or need additional information, please contact Ellie Ortiz, Director of Finance and Administration, Office of the Secretary of State, 325 Don Gaspar, Suite 300, Santa Fe, New Mexico 87501.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

**Statement of Net Assets  
June 30, 2012**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Investment in SGFIP	\$ 2,339,026
Due from other state agencies	375,327
Due from federal grants	39,233
Supplies inventory	32,955
Capital assets, net	<u>820,028</u>
 Total assets	 <u><u>\$ 3,606,569</u></u>
 <b>LIABILITIES</b>	
Accounts payable	\$ 710,938
Accrued payroll	81,868
Due to state general fund	96,182
Compensated absences - current	62,900
Other liabilities	1,671
Compensated absences - noncurrent	<u>62,900</u>
 Total liabilities	 <u>1,016,459</u>
 <b>NET ASSETS</b>	
Invested in Capital Assets	820,028
Restricted for public election fund	1,831,074
Restricted for HAVA program	1,555
Restricted for arbitration fund	30,298
Unrestricted (deficit)	<u>(92,845)</u>
 Total net assets	 <u><u>\$ 2,590,110</u></u>

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

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

**Statement of Activities  
For the Year Ended June 30, 2012**

	Governmental Activities
<b>Expenses:</b>	
Executive:	
Administrative services	\$ 3,143,498
Public election	1,862,419
Elections	2,875,099
Depreciation	1,148,358
Loss on disposal of capital assets	36,154
Total expenses	9,065,528
 <b>Program Revenues:</b>	
Charge for services	16,600
Miscellaneous income	39,608
Federal grants - operating	39,233
Total program revenues	95,441
Net program expenses	(8,970,087)
 <b>General Revenues and Transfers:</b>	
General fund appropriation	5,614,300
Other financing sources	3,308,232
Interest income	4,498
FY12 Reversion to state general fund	(93,322)
Total general revenues and transfers	8,833,708
Change in net assets	(136,379)
Net assets at beginning of year	2,726,489
Net assets at end of year	\$ 2,590,110

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

## **FUND FINANCIAL STATEMENTS**



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

**Balance Sheet -- Governmental Funds  
June 30, 2012**

	Major Funds				Non-Major	Total Governmental Funds
	General Fund (18000)	Public Election (81200)	STB Capital (89200)	HAVA Fund (90300)	Arbitration Fund (02500)	
<b>ASSETS</b>						
Investment in SGFIP	\$679,646	\$1,829,972	\$ -	\$160,131	\$ 30,292	\$ 2,700,041
Due from other funds	163,883	597	-	4,930	-	169,410
Due from other state agencies	-	505	374,783	33	6	375,327
Due from federal grants	-	-	-	39,233	-	39,233
Supplies inventory	32,955	-	-	-	-	32,955
<b>Total assets</b>	<b><u>\$876,484</u></b>	<b><u>\$1,831,074</u></b>	<b><u>\$ 374,783</u></b>	<b><u>\$204,327</u></b>	<b><u>\$ 30,298</u></b>	<b><u>\$ 3,316,966</u></b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Overdrawn - Investment in SGFIP	\$ -	\$ -	\$ 361,015	\$ -	\$ -	\$ 361,015
Accounts payable	658,280	-	13,768	38,890	-	710,938
Accrued payroll	81,868	-	-	-	-	81,868
Due to other funds	5,528	-	-	163,882	-	169,410
Due to State General Fund	96,182	-	-	-	-	96,182
Other liabilities	1,671	-	-	-	-	1,671
<b>Total liabilities</b>	<b><u>843,529</u></b>	<b><u>-</u></b>	<b><u>374,783</u></b>	<b><u>202,772</u></b>	<b><u>-</u></b>	<b><u>1,421,084</u></b>
<b>Fund Balances:</b>						
Nonspendable	32,955	-	-	-	-	32,955
Restricted:						
Public election fund	-	1,831,074	-	-	-	1,831,074
HAVA program	-	-	-	1,555	-	1,555
Arbitration fund	-	-	-	-	30,298	30,298
<b>Total fund balances</b>	<b><u>32,955</u></b>	<b><u>1,831,074</u></b>	<b><u>-</u></b>	<b><u>1,555</u></b>	<b><u>30,298</u></b>	<b><u>1,895,882</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$876,484</u></b>	<b><u>\$1,831,074</u></b>	<b><u>\$ 374,783</u></b>	<b><u>\$204,327</u></b>	<b><u>\$ 30,298</u></b>	<b><u>\$ 3,316,966</u></b>

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

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

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets  
June 30, 2012**

Total fund balances of governmental funds \$ 1,895,882

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 the following:

Voting systems under the care and custody of the Counties	\$ 19,176,850	
Computer equipment	1,758,175	
Accumulated depreciation	<u>(20,114,997)</u>	
Total capital assets		820,028

Some liabilities are not due and payable in the current period, and therefore are not reported in the funds. These liabilities consist of the following:

Compensated absences	<u>(125,800)</u>
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Net Assets of Governmental Activities \$ 2,590,110

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

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

**Statement of Revenues, Expenditures and Changes in Fund Balances -- Governmental Funds  
For the Year Ended June 30, 2012**

	Major Funds				Non-Major	Total Governmental Funds
	General Fund (18000)	Public Election Fund (81200)	STB Capital Outlay (89200)	HAVA Fund (90300)	Arbitration Fund (02500)	
<b>REVENUES</b>						
Charge for services	\$ 16,600	\$ -	\$ -	\$ -	\$ -	\$ 16,600
Miscellaneous income	1,430	38,178	-	-	-	39,608
Federal grants - operating	-	-	-	39,233	-	39,233
Interest income	-	4,153	-	300	45	4,498
Total revenues	<u>18,030</u>	<u>42,331</u>	<u>-</u>	<u>39,533</u>	<u>45</u>	<u>99,939</u>
<b>EXPENDITURES</b>						
Current:						
Personal services and benefits	2,249,605	-	-	-	-	2,249,605
Contractual services	856,838	-	123,264	77,774	-	1,057,876
Other costs	2,610,843	1,862,419	41,950	35,952	-	4,551,164
Capital outlay	230,117	-	209,569	-	-	439,686
Total expenditures	<u>5,947,403</u>	<u>1,862,419</u>	<u>374,783</u>	<u>113,726</u>	<u>-</u>	<u>8,298,331</u>
Excess (deficiency) of revenues over expenditures	(5,929,373)	(1,820,088)	(374,783)	(74,193)	45	(8,198,392)
<b>OTHER FINANCING SOURCES (USES)</b>						
General fund appropriation	5,614,300	-	-	-	-	5,614,300
Other financing sources (uses)	417,100	1,500,000	374,783	-	-	2,291,883
Reversion - FY12	(93,322)	-	-	-	-	(93,322)
Total other financing sources (uses)	<u>5,938,078</u>	<u>1,500,000</u>	<u>374,783</u>	<u>-</u>	<u>-</u>	<u>7,812,861</u>
Net change in fund balances	8,705	(320,088)	-	(74,193)	45	(385,531)
Fund balances at beginning of year	<u>24,250</u>	<u>2,151,162</u>	<u>-</u>	<u>75,748</u>	<u>30,253</u>	<u>2,281,413</u>
Fund balances at end of year	<u>\$ 32,955</u>	<u>\$1,831,074</u>	<u>\$ -</u>	<u>\$ 1,555</u>	<u>\$ 30,298</u>	<u>\$ 1,895,882</u>

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

**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  
For the Year Ended June 30, 2012**

Net Change in fund balances - total governmental funds \$ (385,531)

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

Certain outlays are reported as expenditures in governmental funds. However, in the statement of activities, these costs are expensed as they are consumed or are allocated over their estimated useful lives. In the current period these amounts are:

Capital outlay	\$ 439,686	
Depreciation expense	(1,148,358)	
Loss on disposal of capital assets	(36,154)	
Excess of depreciation expense and loss on disposal over capital outlay		(744,826)

Loans forgiveness from Board of Finance 1,016,349

Expenses recognized in the Statement of Activities, not reported in governmental funds:

(Increase) decrease in compensated absences	<u>(22,371)</u>
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Change in Net Assets of Governmental Activities \$ (136,379)

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

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

**Statement of Revenues and Expenditures-Budget and Actual (Budgetary Basis)  
Major Governmental Funds  
For the Year Ended June 30, 2012**

	<b>General Fund (18000)</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Budget Original</b>	<b>Budget Final</b>	<b>Actual Amounts (Budgetary Basis)</b>	
<b>REVENUES</b>				
Charge for services	\$ -	\$ -	\$ 16,600	\$ 16,600
Miscellaneous income	-	18,400	1,430	(16,970)
General fund appropriation	5,614,300	5,614,300	5,614,300	-
Other financing sources	417,100	417,100	417,100	-
 Total revenues	 6,031,400	 6,049,800	 6,049,430	 (370)
 <b>EXPENDITURES</b>				
Administrative Services:				
Personal services & benefits	2,404,400	2,281,459	2,249,605	31,854
Contractual services	519,700	495,875	491,396	4,479
Other costs	209,500	356,266	340,005	16,261
Elections program	1,634,800	1,653,200	1,612,100	41,100
2011 primary election	1,263,000	1,263,000	1,262,999	1
 Total expenditures	 \$6,031,400	 \$6,049,800	 5,956,105	 \$ 93,695
Excess of revenue and other financing sources over expenditures and transfers			93,325	
Less reversion FY12			(93,322)	
Add supplies inventory			8,702	
Changes in fund balances per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			\$ 8,705	

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

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

**Statement of Revenues and Expenditures-Budget and Actual (Budgetary Basis)  
Major Governmental Funds  
For the Year Ended June 30, 2012**

	<b>Public Election Fund (81200)</b>			
	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Miscellaneous income	\$ -	\$ -	\$ 38,178	\$ 38,178
Interest income	-	-	4,153	4,153
Other financing sources	1,054,000	1,054,000	1,500,000	446,000
Total revenues	1,054,000	1,054,000	1,542,331	488,331
Fund balance		814,979		
Total resources		1,868,979		
<b>EXPENDITURES</b>				
2011 primary election:				
Personal Services & Benefits	-	5,000	-	5,000
Other Costs	1,054,000	1,863,979	1,862,419	1,560
Total expenditures	\$1,054,000	\$1,868,979	1,862,419	\$ 6,560
Excess of revenue and other financing sources over expenditures and transfers			\$(320,088)	

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

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

**Statement of Revenues and Expenditures-Budget and Actual (Budgetary Basis)  
Major Governmental Funds  
For the Year Ended June 30, 2012**

	<b>STB Capital Outlay (89200)</b>			
	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Other financing source - STB Proceeds	\$ 500,000	\$ 500,000	\$374,783	\$ (125,217)
 <b>EXPENDITURES</b>				
Contractual Services	150,000	150,000	123,264	26,736
Other Costs	350,000	350,000	251,519	98,481
Total expenditures	\$ 500,000	\$ 500,000	374,783	\$ 125,217
Excess of revenue and other financing sources over expenditures and transfers			\$ -	

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

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

**Statement of Revenues and Expenditures-Budget and Actual (Budgetary Basis)  
Major Governmental Funds  
For the Year Ended June 30, 2012**

	<b>HAVA Fund (90300)</b>			Variance with Final Budget Positive (Negative)
	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	
<b>REVENUES</b>				
Federal grants - operating	\$ -	\$ 174,494	\$ 39,233	\$ (135,261)
Interest income	-	-	300	300
 Total revenues	 -	 174,494	 39,533	 (134,961)
<b>EXPENDITURES</b>				
Elections program:				
Contractual Services	-	117,994	77,774	40,220
Other Costs	-	56,500	35,952	20,548
 Total expenditures	 \$ -	 \$ 174,494	 113,726	 \$ 60,768
 Excess of revenue and other financing sources over expenditures and transfers			 \$ (74,193)	

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



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

**Statement of Fiduciary Assets and Liabilities - Agency Fund (79900)  
June 30, 2012**

	<u><b>AGENCY FUND</b></u>
<b>ASSETS</b>	
Investment in State general fund pool	<u><u>\$ 3,293</u></u>
<b>LIABILITIES</b>	
Due to State general fund	<u><u>\$ 3,293</u></u>

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

## **NOTES TO FINANCIAL STATEMENTS**

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

**Notes To Financial Statements**

**June 30, 2012**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial Reporting Entity

In accordance with the constitution and laws of the State of New Mexico, the Office of the Secretary of State (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 services of process for non-resident 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 Lobby Registration Act.

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 and the organization 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 operational control. The Office has no blended or discretely presented component units.

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

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.

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

**Notes To Financial Statements**

**June 30, 2012**

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

**A. Basis of Accounting- GASB Statement No. 34**

The basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as governmental activities.

*Government-Wide Financial Statements*

The statement of net assets and the statement of activities display information about the Office, the primary government, as a whole, without displaying individual funds or fund types. Generally, these statements distinguish between activities that are governmental and those that are considered business-type activities. The Office has no business-type activities; therefore these statements only reflect governmental activities. Government-wide financial statements exclude information about fiduciary funds and component units that are fiduciary in nature.

The government-wide statements are prepared using the “economic resources” measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB 33. Grants revenue is recorded when all applicable eligibility or reimbursement requirements are met.

**B. Basis of Presentation - Fund Accounting**

*Fund Financial Statements*

The governmental fund financial statements are presented on the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days in order to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) 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, a reconciliation is presented on the page following each fund statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the government-wide presentation.

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

**Notes To Financial Statements**

**June 30, 2012**

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

**B. Basis of Presentation - Fund Accounting (continued)**

The Office's fiduciary fund (agency fund) is presented in the fund financial statements. The agency fund is presented on the accrual basis of accounting. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated in the government-wide financial statements.

The accounts of the Office are organized on a fund basis, 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 equity, revenues and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which spending activities are controlled. The Office's three major governmental funds are as follows:

Governmental Funds

General Fund – the general fund is the general operating fund of the Office. It is used to account for all financial resources except those required to be accounted for in another fund. Any unexpended balance remaining in the General Fund at the end of the fiscal year reverts to the General Fund of the State of New Mexico. The SHARE fund number is #18000.

Special Revenue Funds

Special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes. No expenditures can be made from special revenue funds for operations of the Office. Unexpended amounts at year end are restricted for future program expenditures in the statement of net assets.

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

- a. Financing the campaigns 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.

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

**Notes To Financial Statements**

**June 30, 2012**

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

**B. Basis of Presentation - Fund Accounting (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.

Severance Tax Bond Capital Outlay (SHARE 89200) – Created by Laws of 2011, Chapter 5, Section 13, to provide for information technology upgrades, including computers, servers and disaster recovery upgrades.

Help America Vote Act Fund (HAVA) (SHARE 90300) - The HAVA fund is used to account for the Federal funds received relating to the Help America Vote Act. Federal funds received in advance are recognized 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 specific purposes by the Help America Vote Act.

The Office's non-major special revenue 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. This is a non-budgeted fund for fiscal year ending 2012.

Fiduciary Funds

Fiduciary fund types include trust and agency funds, which are used to account for assets held by the Office in the capacity of trustee or agent

Agency Fund (SHARE 79900) - for Notary Public and other fees, an agency fund is used to report assets held for others that are not available to support the Office activities. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund is used to collect various fees under 8-4-4 NMSA 1978 that are remitted to the State general fund.

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

**Notes To Financial Statements**

**June 30, 2012**

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

**C. Assets, Liabilities and Equity**

Cash in Bank

The Office's bank account is used to deposit fees collected by the office; this account is swept nightly by the State Treasurer's Office.

Receivables

All receivables are fully collectible.

Supplies Inventory

Supplies inventory consists of non-resale paper, postage and office supplies. The Office uses the purchases method to account for its inventory. At year end, the Office had a net increase of \$8,705 to its supplies inventory.

Capital Assets

In the government-wide financial statements, property, plant and equipment are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated assets which are recorded at their estimated fair value at the date of donation. Capital assets with a value exceeding \$5,000 are capitalized and depreciated. Assets purchased before 2006 were capitalized if cost exceeded \$1,000. 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 systems under the care and custody of the Counties.

Long-term Liabilities

**Compensated Absences**

The Office's policies regarding annual leave permits employees to accumulate earned but unused annual leave. The liability for these compensated absences is recorded as current and noncurrent liabilities in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absences liability payable from expendable available financial resources. 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 time 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.

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

**Notes To Financial Statements**

**June 30, 2012**

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

**C. Assets, Liabilities and Equity (continued)**

Equity

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

- i. *Invested in capital assets* consists of capital assets net of accumulated depreciation and reduced by any outstanding debt. The Office has no outstanding debt relating to capital assets.
- ii. *Restricted net assets*, consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- iii. *Unrestricted net assets* are all other net assets that do not meet the definition of “restricted” or “invested in capital assets.” The deficit reflected in the statement is caused primarily by outstanding loans from the Board of Finance and unfunded compensated absences at year end.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Office first uses restricted resources then unrestricted resources.

Fund Financial Statements

In the governmental fund financial statements the Office classifies fund balances into spendable and non-spendable classifications. The non-spendable 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 as follows:

***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. The amount of net assets restricted due to enabling legislation at June 30, 2012 is summarized below:

Restricted for public election fund (18000)	\$ 1,831,074
Restricted for HAVA program (90300)	1,555
Restricted for arbitration fund (02500)	30,298
Total	<u>\$ 1,862,927</u>



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

**Notes To Financial Statements**

**June 30, 2012**

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

**C. Assets, Liabilities and Equity (continued)**

*Committed fund balances*

Committed fund balances consist of amounts which 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, 2012.

*Assigned fund balances*

Assigned fund balances consist of fund balances which are constrained by the government intent to be used for specific purposes, but are neither committed nor restricted. 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. The Office has no assigned fund balances as of June 30, 2012.

*Unassigned fund balances*

Unassigned fund balances consist of all other fund balances which have not been assigned to other funds and have not been restricted, committed, or assigned to specific purposes within the general fund. The Office has no unassigned fund balances as of June 30, 2012. Generally, the policy of the Office is to first apply committed resources when an expense is incurred for purposes which have committed, assigned, or unassigned fund balances available for use.

**D. Program Revenues**

Program revenues include federal and state grants, charges for copies and other miscellaneous fees collected per statute designated for operations. Grant revenues are recognized when all eligibility requirements have been met.

**E. Budgets and Budgetary Accounting**

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

1. Prior to September 1, the Office submits to State Budget – Finance Control Division, Department of 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.
2. Following their budget hearings with the Office, the DFA and the LFC prepare their own budget recommendations to the legislature.

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

**Notes To Financial Statements**

**June 30, 2012**

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

**E. Budgets and Budgetary Accounting (continued)**

3. Budget hearings are then scheduled before the finance committee of the New Mexico House of representatives and senate. The final outcome of these hearings is incorporated into the general appropriations act.
4. The Office then submits, on or before May 1, an annual operating budget request to the state Budget division which reviews the request and subsequently approves the budget based upon the appropriations 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
5. Budgetary control is exercised by the Office at the appropriations unit level. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.
6. Legal budgetary control for expenditures and encumbrances is by category or line item.
7. The non-budgeted funds for the Office are the Arbitration and the Agency funds.
8. Appropriations lapse at the end of the fiscal year except for those amounts related to goods and services received by June 30<sup>th</sup> or are multi-year appropriations.

**F. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**G. Inter-fund Activity**

Amounts due to and due from other funds were created because special revenue funds were used to pay for matching requirements that should have been paid by the general fund. Inter-fund receivables or payables at year end are netted as part of the reconciliation to the government-wide financial statements.

**(2) GENERAL FUND INVESTMENT POOL NOT RECONCILED**

The funds allotted to the Office of the Secretary of State are held by the New Mexico State Treasurer and pooled with the state general fund investment pool. The Office is required to participate in this investment pool and the Office does receive interest income from this investment.

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

**Notes To Financial Statements**

**June 30, 2012**

**(2) GENERAL FUND INVESTMENT POOL NOT RECONCILED (continued)**

The State of New Mexico deployed the Statewide Human Resource, Accounting and Management Reporting System (SHARE) on July 1, 2006. The system includes a Treasury application which includes Cash Management, the purpose of which is the ultimate reconciliation of cash transactions between the State Treasurer's Office (STO), Department of Finance and Administration (DFA) and the State fiscal agent bank. As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. It is the responsibility of the DFA to reconcile the General Fund Investment Pool. Essentially, independent, third-party verification/confirmation of the Office's balances at the business unit/fund level is not possible.

In June 2012, the State Controller commissioned a diagnostic report with the purpose of assessing the current state of cash reconciliation and determining recommendations for remediating the cash reconciliation issues. The full details of the report are available in the Resources section of the Cash Control page of the Department of Finance & Administration's website ([http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx)). The document title is *Current State Diagnostic of Cash Control*.

Under the direction of the State Controller, the Financial Control Division of DFA is taking aggressive action to resolve this serious problem. DFA has commenced the Cash Management Remediation Project (Project) in partnership with the New Mexico State Treasurer's Office (STO), the New Mexico Department of Information Technology (DoIT), and Deloitte Consulting, LLP.

The purpose of the Project is to design and implement the SHARE system configuration and business process changes necessary to produce the statewide cash reconciliation in a manner that is complete, accurate, and timely. This critically important project will affect cash receipt and cash disbursement processes utilized by all State Agencies. The work product of the initial phase of the Project is a document entitled *Cash Management Plan and Business Processes*. This document is available on the Cash Control page of the Department of Finance & Administration's website at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

Since SHARE was implemented, the Office recognized the statewide cash reconciliation issue and in response, developed internal reconciliation procedures to ensure that cash receipts and disbursements recorded in the SHARE system are in fact transactions that have been initiated by the Office. The monthly internal reconciliation of cash receipts and disbursements flowing through the Office's share of the state general fund investment pool provides management assurance that the balance reflected in State General Fund Investment Pool account is accurate as of the end of the reporting period. In addition, the Office reconciles other asset and liability accounts on the Balance Sheet of each fund type. This process also provides additional assurance that transactions affecting the Office's share in the State General Fund Investment Pool account are accurate.

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

**Notes To Financial Statements**

**June 30, 2012**

**(3) INTEREST IN THE STATE GENERAL FUND INVESTMENT POOL**

State law (Section 8-6-3 NMSA 1978) requires the Office's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Office consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office. At June 30, 2012 the Office had the following invested in the General Fund Investment Pool:

SHARE Account	Fund Description	SHARE Balance
18000	General Fund	\$ 679,646
81200	Public Election Fund	1,829,972
89200	Severance Tax Bond Capital Outlay Fund	(361,015)
90300	HAVA Fund	160,131
02500	Arbitration Fund	30,292
Total investment in SGFIP		\$ 2,339,026

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

Credit risk - The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2012.

**(4) DUE FROM / DUE TO**

Due from in the Statement of Net Assets consists of grants and other receivables from external parties at year end.

The due to State General Fund in the Statement of Net Assets of \$96,182 includes \$2,860 for deposit posted to the wrong fund and \$93,322 for current fiscal year reversion.

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

**Notes To Financial Statements**

**June 30, 2012**

**(4) DUE FROM / DUE TO (Continued)**

Due from/to other funds represent program disbursements made from the wrong funds. The schedule below will restore assets and liabilities to the proper fund.

Due From:	Due To:	
	General Fund (18000)	HAVA Fund (90300)
HAVA Fund (903000)	\$ 4,930	\$ -0-
Public Election Fund (81200)	597	-0-
General Fund (18000)	-0-	163,883
Total	\$ 5,527	\$ 163,883

**(5) CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Computer equipment, software and furniture	\$ 2,086,528	439,686	(768,039)	\$ 1,758,175
Voting systems under the care and custody of the Counties	19,268,330	-0-	(91,480)	19,176,850
Total capital asset	21,354,858	439,686	(859,519)	20,935,025
Less accumulated depreciation				
Computer equipment, software and furniture	(1,279,602)	(390,430)	731,885	(938,147)
Voting systems under the care and custody of the Counties	(18,510,402)	(757,928)	91,480	(19,176,850)
Total accumulated depreciation	(19,790,004)	(1,148,358)	823,365	(20,114,997)
Net capital assets	\$ 1,564,854	(708,672)	(36,154)	\$ 820,028

Depreciation expense for the year ended June 30, 2012 was \$1,148,358. The Office does not own any infrastructure assets as of June 30, 2012.

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

**Notes To Financial Statements**

**June 30, 2012**

**(6) CHANGES IN LONG-TERM OBLIGATION**

The following is a summary of transactions for the compensated absences for the year ended June 30, 2012, which the general fund will pay in future years:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Annual leave	\$ 97,833	\$ 94,675	\$ 75,828	\$ 116,680
Sick leave	4,633	40,568	42,199	3,002
Compensatory leave	963	27,391	22,236	6,118
Total	<u>\$ 103,429</u>	<u>\$ 162,634</u>	<u>\$ 140,263</u>	<u>\$ 125,800</u>

The current portion of the compensated absences balance is \$62,900.

**(7) LOANS FORGIVENESS**

The Office requested and the Board of Finance approved converting of emergency loans balance of \$1,016,350 to grants at its May 21, 2012 board meeting. This transaction is only reflected on the government-wide financial statements.

**(8) RETIREMENT BENEFITS – PERA**

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 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 for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA’s website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

Funding Policy

Plan members are required to contribute 10.67% of their gross salary. The Office is required to contribute 13.34% of the gross covered salary. The contribution requirements of 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 contributions to PERA for the years ending June 30, 2012, 2011 and 2010 were \$214,432, \$238,677 and \$282,457, respectively, equal to the amount of the required contributions for each fiscal year.

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

**Notes To Financial Statements**

**June 30, 2012**

**(9) POST RETIREMENT BENEFITS - RETIREE HEALTH CARE**

Plan Description

The Office of the Secretary of State 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 Retiree Health Care Act on the person's behalf, unless that person retires before the employer's NMRHCA 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.

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](http://www.nmrhca.state.nm.us).

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

**Notes To Financial Statements**

**June 30, 2012**

**(9) POST RETIREMENT BENEFITS - RETIREE HEALTH CARE (continued)**

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. During the fiscal year ended June 30, 2012, the statute requires each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee is required to contribute .917% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for the employees and employers will rise as follows:

(1) For employees who are not a member of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.000%	1.000%

Also, employers joining the program after January 1, 1998, are 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 years ended June 30, 2012, 2011 and 2010 were \$28,446, \$26,876 and \$22,953, respectively, which equals the required contributions for each year.

**(10) DEFERRED COMPENSATION**

The State of New Mexico offers state, local government and school district employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and those local government and school district employees whose employers have elected participation in the plan, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. There are employees that 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 the New Mexico Public Employees Retirement Association, which administers the plan.



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

**Notes To Financial Statements**

**June 30, 2012**

**(11) COMMITMENTS AND CONTINGENCIES**

Operating Leases

The Secretary of State leases certain equipment under operating leases. Leases are subject to future appropriations and as such are cancellable by the Secretary of State at the end of a fiscal year. Rental expense for the year ended June 30, 2012 was \$2,338,157, of which, \$2.3 million was from rental of voting machine scanners and printers for the primary election. Future lease payments are as follows:

2013	14,539
2014	3,539
2015	2,949
2016	-0-
2017	-0-
Total	<u>\$ 21,027</u>

Risk Management

The office is exposed to various risks of loss for which the office carries insurance (auto; unemployment compensation; crime; general liability, civil rights; property; and worker's compensation). The Office obtains coverage through the State of New Mexico Risk Management Division (RMD); claims are processed through RMD. There are no material matters outstanding at June 30, 2012.

**(12) SPECIAL AND DEFICIENCY APPROPRIATIONS**

The Office received a special appropriation under Laws of 2011, Chapter 179, Section 6 for fiscal year 2012 for \$250,000 to operate the 2012 primary election. As of June 30<sup>th</sup>, the Office had expended the entire amount and had no reversion.

The Office also received a supplemental appropriation under Laws of 2012, Chapter 19, Section 6 for \$1,013,000 to cover the 2012 primary election. The Office expended \$1,262,999 as of year end, and reverting \$1 to the state general fund, which is reflected in the accompanying financial statements.

Severance Tax Bond Capital Outlay Appropriations Laws of 2011, Chapter 5, Section 13: The Office received \$500,000 for information technology upgrades, including computers, servers and disaster recovery. As of June 30, 2012, \$124,685 remained unexpended.

## **OTHER SUPPLEMENTARY INFORMATION**

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

**Schedule of Changes in Fiduciary Assets and Liabilities  
For the Year Ended June 30, 2012**

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<b>Assets -</b>				
Interest in SGFIP	<u>\$ 747,696</u>	<u>\$ 707,292</u>	<u>\$1,451,695</u>	<u>\$ 3,293</u>
<b>Liabilities -</b>				
Due to State general fund	<u>\$ 747,696</u>	<u>\$ 707,292</u>	<u>\$1,451,695</u>	<u>\$ 3,293</u>

See Auditor's Report

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

**Schedule of Operating Transfers  
For the Year Ended June 30, 2012**

SHARE Fund	Agency	Transfer	
		In	Out
<b>General Fund (18000)</b>			
(1) 85300	Dept. of Finance & Administration	\$ 4,351,300	\$ -
(2) 85300	Dept. of Finance & Administration	1,013,000	-
(3) 85300	Dept. of Finance & Administration	250,000	-
(4) 99500	Board of Finance	374,783	-
(5) 20900	Board of Finance	417,100	-
(6) 20900	Dept. of Finance & Administration	-	93,322
<b>Public Election Fund (81200)</b>			
(7) 71000	Taxation and Revenue Dept.	1,200,000	-
(8) 50800	Public Regulation Commission (PRC)	100,000	-
(9) 50600	Public Regulation Commission	200,000	-
Total		<u>\$ 7,906,183</u>	<u>\$ 93,322</u>

- (1) General fund appropriations, Laws of 2011, Chapter 179, Section 4.
- (2) General fund appropriations, Laws 2012, 2nd Special Session, Chapter 119, Section 6 - primary election.
- (3) Special appropriations, Laws 2011, Chapter 179, Session 5, item 12 - primary election.
- (4) Severance tax bonds, Laws 2011, Chapter 5, Section 13.
- (5) Emergency grant, Laws 2012, Chapter 179, Section 3, Item I.
- (6) Reversion to State general fund.
- (7) Distribution from the Tax Administration Suspense Fund under Section 7-1-6.58 NMSA 1978.
- (8) Public election fund from PRC per Section 1-19A-10 NMSA 1978.
- (9) Public election fund from PRC per Section 1-19A-10 NMSA 1978.

See Auditor's Report

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

**Schedule of Memorandum of Understanding**

**For the Year Ended June 30, 2012**

<u>Participants</u>	<u>Operation Responsibility</u>	<u>Description</u>	<u>Term</u>	<u>Total Estimated Amount</u>	<u>Secretary of State Contribution</u>	<u>Audit Responsibility</u>
Secretary of State &:						
Governor's Commission on Disability (GCD)	GCD	To provide accessibility training at the polling sites.	7/1/2011 - 6/30/2013	\$ 13,917	\$ 13,917	GCD

(1) Reporting is the responsibility of all parties involved.

(2) The revenues and expenditures are reported in the books of the responsible party.

See Auditor's Report

## **OTHER REPORTS**

**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 H. Balderas  
New Mexico State Auditor  
and  
Ms. Dianna J. Duran  
New Mexico Secretary of State

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue funds of the State of New Mexico, Office of the Secretary of State (Office) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 5, 2012. 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**

Management of the Office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Office'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **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*.

However, we noted a certain other matter that is required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying *schedule of findings and responses* as item 2011-5.

The Office's responses to the findings identified in our audit are described in the accompanying *schedule of findings and responses*. We did not audit the Office's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the Office, 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.



Zlotnick, Laws & Sandoval, P.C.  
December 5, 2012



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

**Summary of Findings and Responses  
For the Year Ended June 30, 2012**

No.	Title	Status of Prior Year Findings	Significant Deficiency	Material Weakness	Compliance	Other Matters
<b>Prior Year Findings:</b>						
2011-01	Cash Drawdown	Resolved				
2011-02	Capital Assets Management	Resolved				
2011-03	Gas Card Statement	Resolved				
2011-04	Voucher Test	Resolved				
2011-05	Cash Receipts	Revised and Repeated	no	no	yes	no
2011-06	Payroll Test	Resolved				
2011-07	Reversion	Resolved				
2011-08	<i>Not Used</i>					
2011-09	Fraud Policy	Resolved				
2011-10	Inventory Exempt Items	Resolved				
2011-11	Vehicle Usage	Resolved				
2011-12	Equipment Management	Resolved				
2011-13	Reporting Requirements	Resolved				

See Auditor's Report

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

**Schedule of Findings and Responses  
Year Ended June 30, 2012**

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**COMPLIANCE - Other**

**2011-5 (Revised & Repeated)**

**Cash Receipts**

Condition:

We selected 34 deposit days to test cash received at the Secretary of State Office. We found thirteen (13) instances totaling \$39,868 where the cash receipts were not deposited within the 24 hour time requirement, an error rate of 38%. Nine of the thirteen instances of noncompliance occurred before October 1, 2011, and only four instances of noncompliance occurred thereafter.

Criteria:

The Public Money Act [Chapter 6-10-3 NMSA 1978] requires that state agencies receiving any money for or on behalf of the state shall remit the money received to the State Treasurer before the close of the next succeeding business day after the receipt of money.

Effect:

The Office did not comply with the law.

Cause:

Operators are collecting only the fees that are assigned to their functions, and don't always close out and balance their accounts on a daily basis.

Recommendation:

All operators collecting fees need to close out and balance their accounts on a daily basis so that the deposit can be made timely.

Agency Response:

The fiscal year 2011 audit identified a historical practice by agency staff of failing to remit money received to State Treasurer before close of the next succeeding business day. Once aware, the agency implemented procedures requiring operators to close out and balance their accounts daily to ensure funds are deposited with the State Treasurer before the next succeeding business day.

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

**Financial Statement Preparation and Exit Conference**

**Year Ended June 30, 2012**

**Financial Statement Preparation**

The financial statements were prepared by the auditors, Zlotnick, Laws & Sandoval, P.C.; however, the financial statements are the responsibility of management. 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**

The contents of this report were discussed at an exit conference held on December 12, 2012 with the following in attendance:

**Office of the Secretary of State**

Dianna J. Duran, Secretary of State  
Ken Ortiz, Chief of Staff  
Ellie Ortiz, Director of Finance and Administration

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

Asa Laws, CPA  
Ban Trinh, CPA