



Timothy Keller
State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR
Elected for Better Government

Sanjay Bhakta, CPA, CGFM, CFE
Deputy State Auditor

VIA EMAIL

February 4, 2015

Dianna J. Duran, Secretary of State
C/O Veronica Albin, CFO
Office of the Secretary of State
Veronica.albin@state.nm.us

Dear Secretary Duran,

The Office of the State Auditor reviewed the audit of the Office of the Secretary of State for Fiscal Year 2014. As part of our review, our team identified that the STB Capital Outlay Fund has a deficit fund balance of \$513,807. We request immediate written confirmation that this amount was recovered through appropriations in Fiscal Year 2015.

Failure to provide the requested confirmation could result in a further action by my Office, including, but not limited to a delay to processing the Office's Fiscal Year 2015 audit contract. Please do not hesitate to contact our auditor Anna Williams at Anna.Williams@osa.state.nm.us or (505) 476-3800 if you have questions about this letter.

Sincerely,

A handwritten signature in black ink that reads "Timothy Keller".

Tim Keller, State Auditor



Timothy Keller
State Auditor

Sanjay Bhakta, CPA, CGFM, CFE
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR
Elected for Better Government

February 4, 2015

SAO Ref. No. 370

The Honorable Dianna J. Duran, Secretary of State
Office of the Secretary of State
325 Don Gaspar, Suite 300
Santa Fe, NM 87501-

SUBJECT: Audit Report—Office of the Secretary of State—2013-2014 Fiscal Year—Prepared by REDW, LLC

The audit report for your agency was received by the Office of the State Auditor (Office) on December 16, 2014. The State Auditor's review of the audit report required by Section 12-6-14 (B) NMSA 1978 and 2.2.2.13 NMAC has been completed. This letter is your authorization to make the final payment to the independent public accountant (IPA) who contracted to perform your agency's financial and compliance audit. In accordance with the Section 2 of the audit contract, the IPA is required to deliver the specified number of copies of the audit report to the agency.

Pursuant to Section 12-6-5 NMSA 1978, the audit report does not become public record until five days after the date of this release letter, unless your agency has already submitted a written waiver to the Office. Once the five-day period has expired or upon the Office's receipt of a written waiver, the audit report shall be:

- released by the Office to the Legislative Finance Committee, the Department of Finance and Administration, and the State Treasurer
- posted by the Office to our website

The independent public accountant's findings and comments are included in the audit report on pages 40-42. **It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments. Section 2.2.2.10(J) NMAC requires that an exit conference be held with representatives of the agency's governing authority and top management.**

A handwritten signature in black ink that reads "Timothy Keller".

Timothy Keller
State Auditor

cc: REDW, LLC

State of New Mexico
Office of the Secretary of State

Financial Statements
and
Independent Auditor's Report
June 30, 2014

REDW^{LLC}
CPAs | Business & Financial Advisors

State of New Mexico
Office of the Secretary of State

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State of New Mexico
Office of the Secretary of State

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State of New Mexico
Office of the Secretary of State
Official Roster
June 30, 2014

<u>Name</u>	<u>Title</u>
Dianna J. Duran	Secretary of State
Mary Quintana	Deputy Secretary of State
Ken Ortiz	Administrator of Business Services
Veronica Albin	Director of Finance and Administration

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, 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, 2014, and the related notes to the financial statements which collectively comprise the Office's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

We were unable to obtain sufficient appropriate audit evidence on the value of the Office's investment in the State General Fund Investment Pool (the "Pool") at June 30, 2014. Appropriate audit evidence includes confirmation of the Office's interest in the Pool from the NM State Treasurer's Office (STO) and a reconciliation of the Office's investment in the Pool from the NM Department of Finance and Administration (DFA).

The Office does track the receipts and disbursements in their interest in the Pool but cannot reconcile the account because the external information previously described from STO and DFA was not available from these agencies. This investment amount is included in the Office's assets and is described in Note 3 to the financial statements.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the budgetary 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, 2014, and the related notes to the financial statements which collectively comprise the Office's basic financial statements as listed in the table of contents.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Office and do not purport and do not, present fairly the financial position of the State of New Mexico as of June 30, 2014, the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified in respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any

assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the Office's basic financial statements. The other supplementary information as listed in the table of contents are required by 2.2.2.NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "REDW LLC". The letters are stylized and cursive.

Albuquerque, New Mexico
December 15, 2014

State of New Mexico
Office of the Secretary of State
Management's Discussion and Analysis
For the Year Ended June 30, 2014

As financial management of the State of New Mexico, Office of the Secretary of State (Office), we offer readers of the Office's financial statements this narrative overview and analysis of the financial activities of the Office for the year ended June 30, 2014. Please read it in conjunction with the financial statements and notes to the financial statements.

The mission of the Office 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.

Financial Highlights

- ◆ Total assets of the Office exceeded liabilities at June 30, 2014, by \$7.8 million (net position). The net position includes \$6.4 invested in capital assets and restricted net position of \$1.1 million.
- ◆ Total expenses increased from \$8.5 million in 2013 to \$10.2 million in 2014. The increase is primarily due to the inclusion of the Corporation's Division which was reported in the prior year in the Public Regulation's Commission financial statements.
- ◆ The Office received a special appropriation in order to purchase voting machines in the amount of \$6 million.

Overview of the Financial Statements

This discussion and analysis serves as the introduction to the Office's financial statements which are comprised of five components: 1) management's discussion and analysis (this section), 2) government-wide financial statements, 3) fund financial statements, 4) notes to the financial statements, and 5) supplementary information.

The government-wide financial statements report information about the Office that provide both long-term and short-term information. The fund financial statements focus on the individual funds of the Office reporting operations in more detail than the government-wide financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Office's finances in a manner similar to a private-sector business in that all activities are consolidated into a single column.

These statements report current financial resources of governmental activities with related governmental capital assets and long-term obligations.

State of New Mexico
Office of the Secretary of State
Management's Discussion and Analysis
For the Year Ended June 30, 2014

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

The statement of activities presents information showing how the Office's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. For example, earned but unused vacation leave results in cash flow during future periods. The focus of the statement of activities is on both the gross and net cost of various activities. This is intended to summarize information and simplify the user's analysis of cost of various governmental services provided by the Office.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. The Office presents the following major governmental funds.

- ◆ General Fund (SHARE 18000) – 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. In 2014, the corporation of the Public Regulations Commission was included in the Office's general fund.
- ◆ Public Elections 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 financing the campaigns of certified candidates for covered offices, paying administrative and enforcement costs of the Voter Action Act, and carrying out all other specified provisions of the Voter Action Act.
- ◆ Severance Tax Bond (STB) Capital Outlay (SHARE 89200) – the severance tax bond capital outlay fund provides 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 related to the Help America Vote Act.

State of New Mexico
Office of the Secretary of State
Management's Discussion and Analysis
For the Year Ended June 30, 2014

- ◆ Arbitration fund (SHARE 02500) – The arbitration fund is used to account for activities related to any arbitration activities.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of the Office's financing decisions. The Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Financial Analysis of the Office as a Whole

The Office's net position increased by \$5.4 million during the year. Net position invested in capital assets increased by \$5.9 million during the year primarily due to the special appropriation received for the purchase of new voting machines. Table 1 summarizes the Office's net position:

Table 1
Condensed Statement of Net Position
For the Years Ended June 30,

	<u>2014</u>	2013	Change
Assets			
Current assets	\$ 2,834,563	\$ 2,659,150	\$ 175,413
Capital assets	<u>6,370,678</u>	<u>465,917</u>	<u>5,904,761</u>
Total assets	<u>9,205,241</u>	<u>3,125,067</u>	<u>6,080,174</u>
Liabilities			
Current liabilities	1,294,572	589,123	705,449
Long-term liabilities	<u>67,679</u>	<u>58,804</u>	<u>8,875</u>
Total liabilities	<u>1,362,251</u>	<u>647,927</u>	<u>714,324</u>
Net position			
Invested in capital assets	6,370,678	465,917	5,904,761
Restricted	1,105,275	2,079,456	(974,181)
Unrestricted (deficit)	<u>367,037</u>	<u>(68,233)</u>	<u>435,270</u>
Total net position	<u>\$ 7,842,990</u>	<u>\$ 2,477,140</u>	<u>\$ 5,365,850</u>

State of New Mexico
Office of the Secretary of State
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Expenses increased approximately \$1.7 million in 2014. The increase is primarily due to the fact the Office took over financial responsibility for the corporation's bureau of the Public Regulations Commission. General revenues increased approximately \$7.5 million primarily due to the special appropriation received for purchase of new voting machines. Table 2 provides a condensed statement of activities.

Table 2
Condensed Statement of Activities
June 30,

	<u>2014</u>	2013	Change
Revenues			
Program revenue	\$ 33,837	\$ 334,281	\$ (300,444)
General revenue, net of transfers	<u>15,541,777</u>	<u>8,033,565</u>	<u>7,508,212</u>
Total revenues	<u>15,575,614</u>	<u>8,367,846</u>	<u>7,207,768</u>
Expenses			
Program expenses	<u>10,209,764</u>	<u>8,480,818</u>	<u>1,728,946</u>
Total expenses	<u>10,209,764</u>	<u>8,480,818</u>	<u>1,728,946</u>
Change in net assets	5,365,850	(112,972)	5,478,822
Net position, beginning of year	<u>2,477,140</u>	<u>2,590,112</u>	<u>(112,972)</u>
Net position, end of year	<u>\$ 7,842,990</u>	<u>\$ 2,477,140</u>	<u>\$ 5,365,850</u>

Financial Analysis of the Office's Funds

The focus of the Office's funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Office's financing requirements.

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 HAVA. Federal funding under HAVA has been significantly reduced. It is no longer available for many of the types of assets previously purchased using HAVA funds, such as voting systems and HAVA disability funds have been eliminated.

At June 30, 2014, the Office's total governmental funds reported an ending fund balance of approximately \$1.6 million, a decrease of \$521 thousand from the prior year. The decrease is attributable to a fund balance deficit in the STB capital outlay fund of \$513 thousand. The Office drew down additional funds after year-end to alleviate the deficit.

State of New Mexico
Office of the Secretary of State
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Capital Assets and Long-Term Liabilities

Capital Assets – As of June 30, 2014, the Office had \$6.4, net of accumulated depreciation, invested primarily in voting systems under the care and custody of the Counties. The Office also had computer equipment, software, and furniture at year-end.

Long-Term Liabilities – The Office's compensated absences balance increased from \$118k to \$135k during the year. Half of the balance, or \$68k, is reported as due within one year.

Economic Factors and Next Year's Budget

The FY15 budget appropriation was \$9,407,300, and in addition, a special appropriation totaling \$200,000 for election expenses. As has been the case in prior years, the agency's ability to project its expenses with accuracy is hindered because of its statutory obligation to reimburse or provide counties with election related items and services without spending restrictions imposed on the counties. An additional capital outlay appropriation completed Phase II of new vote tabulating equipment in all counties statewide. Counties are gradually moving away from traditional polling places in favor of Voting Convenience Centers, and while this in some cases provides a cost savings to the counties, it increases the costs to the Office. The Office is also in the process of meeting a statutory obligation to provide online voter registration, and is simultaneously working to improve the Voter Registration and Election Management system, costs that impact the FY15 budget, but which will potentially save costs on maintenance fees in future years.

The Corporations Division has operated a full fiscal year under the direction of the Office, and has significantly increased its efficiency in processing documents within its statutory deadline. An online filing system is being designed and implemented to further streamline the business services provided by the office to the business community. While this increases efficiency and reduces costs in areas such as postage, office supplies, and personnel, it results in increased costs for IT maintenance, as well as fees related to accepting credit cards for online filing.

With reduced anticipated revenues to the state as a whole, the Office of the Secretary of State will continue to operate as efficiently as possible within its appropriations, and accommodate the demands placed on its budget to meet its obligations in overseeing statewide elections, and providing services to the business community.

State of New Mexico
Office of the Secretary of State
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Contacting the Office's Financial Management

This financial report is designed to provide a general overview of the Office's finances and demonstrate accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Veronica Albin, 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 Position
June 30, 2014

	<u>Governmental Activities</u>
Assets	
Investment in State General Fund Investment Pool	\$ 2,831,828
Accounts receivable	2,583
Due from other state agencies	152
Capital assets, net	<u>6,370,678</u>
Total assets	<u>9,205,241</u>
 Liabilities	
Accounts payable	924,890
Accrued payroll	77,041
Due to other state agencies	1,897
Due to the State General Fund	223,065
Compensated absences - current	67,679
Compensated absences - noncurrent	<u>67,679</u>
Total liabilities	<u>1,362,251</u>
 Net Position	
Investment in capital assets	6,370,678
Restricted	1,105,275
Unrestricted	<u>367,037</u>
Total net position	<u>\$ 7,842,990</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, 2014

	<u>Governmental Activities</u>
Expenses	
Executive	
Administrative services	\$ 4,146,231
Public election	1,881,926
Elections	3,671,042
Depreciation	<u>510,565</u>
Total expenses	<u>10,209,764</u>
 Program Revenues	
Charge of services	8,274
Miscellaneous income	<u>25,563</u>
Total program revenues	<u>33,837</u>
Net program expenses	<u>(10,175,927)</u>
 General Revenues and Transfers	
General fund appropriation	7,127,700
Other financing sources	8,635,638
Interest income	1,504
Reversion to the State General Fund (FY 14)	<u>(223,065)</u>
Total general revenues and transfers	<u>15,541,777</u>
Change in net position	5,365,850
Net position at beginning of year	<u>2,477,140</u>
Net position at end of year	<u><u>\$ 7,842,990</u></u>

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

**Governmental Funds
Financial Statements**

State of New Mexico
Office of the Secretary of State
Balance Sheet—Governmental Funds
June 30, 2014

	General Fund (18000)	Public Election (81200)
Assets		
Investment in State General Fund Investment Pool	\$ 1,943,533	\$ 1,127,633
Accounts receivable	2,583	-
Due from other state agencies	-	150
	-	150
Total assets	\$ 1,946,116	\$ 1,127,783
Liabilities and Fund balance		
Current liabilities		
Due to State General Fund Investment Pool	\$ -	\$ -
Accounts payable	574,474	106,633
Accrued payroll	77,041	-
Due to other state agencies	1,892	-
Due to state general fund	223,065	-
	876,472	106,633
Total liabilities	876,472	106,633
Fund balance (deficit)		
Restricted	-	1,021,150
Committed	1,069,644	-
Unassigned (deficit)	-	-
	1,069,644	1,021,150
Total fund balance (deficit)	1,069,644	1,021,150
Total liabilities and fund balance	\$ 1,946,116	\$ 1,127,783

STB Capital Outlay (89200)	HAVA Fund (90300)	Arbitration Fund (02500)	Total Governmental Funds
\$ -	\$ 300	\$ 30,386	\$ 3,101,852
-	-	-	2,583
-	-	2	152
<u>\$ -</u>	<u>\$ 300</u>	<u>\$ 30,388</u>	<u>\$ 3,104,587</u>
\$ 270,024	\$ -	\$ -	\$ 270,024
243,783	-	-	924,890
-	-	-	77,041
-	5	-	1,897
-	-	-	223,065
<u>513,807</u>	<u>5</u>	<u>-</u>	<u>1,496,917</u>
-	295	30,388	1,051,833
-	-	-	1,069,644
(513,807)	-	-	(513,807)
<u>(513,807)</u>	<u>295</u>	<u>30,388</u>	<u>1,607,670</u>
<u>\$ -</u>	<u>\$ 300</u>	<u>\$ 30,388</u>	<u>\$ 3,104,587</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 Balance Sheet – Governmental Funds to the
Statement of Net Position
For the Year Ended June 30, 2014

Fund balance of governmental funds \$ 1,607,670

Amounts reported for governmental activities in the statement of net position 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	25,263,824
Computer equipment, software and furniture	2,169,553
Accumulated depreciation	(21,062,699)

Some liabilities are not due and payable in the current period, and therefore are not reported in the funds.

There liabilities consist of the following:

Compensated absences	(135,358)
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Net position of governmental activities	\$ 7,842,990
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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, 2014

	General Fund (18000)	Public Election Fund (81200)
	<u> </u>	<u> </u>
Revenues		
Charges for services	\$ 8,274	\$ -
Interest income	-	1,381
Miscellaneous income	-	25,561
Total revenues	<u>8,274</u>	<u>26,942</u>
Expenditures		
Current		
Personal services and benefits	3,619,063	-
Contractual services	1,316,817	250,000
Other costs	2,458,503	1,674,917
Capital outlay	-	-
Total expenditures	<u>7,394,383</u>	<u>1,924,917</u>
Excess (deficiency) of revenues over expenditures	<u>(7,386,109)</u>	<u>(1,897,975)</u>
Other Financing Sources (Uses)		
General fund appropriation	7,127,700	-
Other financing sources	880,500	1,500,000
Reversion to the State General Fund	<u>(223,065)</u>	<u>-</u>
Total other financing sources	<u>7,785,135</u>	<u>1,500,000</u>
Net change in fund balance	399,026	(397,975)
Fund balance, beginning of year	<u>670,618</u>	<u>1,419,125</u>
Fund balance (deficit), end of year	<u>\$ 1,069,644</u>	<u>\$ 1,021,150</u>

STB Capital Outlay (89200)	HAVA Fund (90300)	Arbitration Fund (02500)	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 8,274
-	101	22	1,504
-	-	2	25,563
<u>-</u>	<u>101</u>	<u>24</u>	<u>35,341</u>
-	-	-	3,619,063
362,149	-	-	1,928,966
-	-	-	4,133,420
<u>6,415,326</u>	<u>-</u>	<u>-</u>	<u>6,415,326</u>
<u>6,777,475</u>	<u>-</u>	<u>-</u>	<u>16,096,775</u>
<u>(6,777,475)</u>	<u>101</u>	<u>24</u>	<u>(16,061,434)</u>
-	-	-	7,127,700
6,255,138	-	-	8,635,638
-	-	-	(223,065)
<u>6,255,138</u>	<u>-</u>	<u>-</u>	<u>15,540,273</u>
(522,337)	101	24	(521,161)
<u>8,530</u>	<u>194</u>	<u>30,364</u>	<u>2,128,831</u>
<u>\$ (513,807)</u>	<u>\$ 295</u>	<u>\$ 30,388</u>	<u>\$ 1,607,670</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 Statement of Revenues,
Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds \$ (521,161)

Amounts reported for governmental activities in the statement of position 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	\$ 6,415,326	
Depreciation expense	<u>(510,565)</u>	
Excess of depreciation expense and loss on disposal over capital outlay		5,904,761

Expenses recognized in the statement of activities, not reported in governmental funds:

Increase in compensated absences	<u>(17,750)</u>
Change in net position of governmental activities	<u><u>\$ 5,365,850</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 Revenues, Expenditures—Budget and Actual (Budgetary Basis)
Major Governmental Funds
For the Year Ended June 30, 2014

	General Fund (18000)			Variance with Final Budget Positive (Negative)
	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	
Revenues				
Charge for services	\$ -	\$ -	\$ 8,274	\$ 8,274
General fund appropriation	7,147,200	7,147,200	7,127,700	(19,500)
Other financing sources	-	-	880,500	880,500
Total revenues	<u>\$ 7,147,200</u>	<u>\$ 7,147,200</u>	<u>8,016,474</u>	<u>\$ 869,274</u>
Expenditures				
Administrative services				
Personal services and benefits	\$ 3,491,100	\$ 3,480,734	3,619,063	\$ (138,329)
Contractual services	1,942,000	1,976,582	1,316,817	659,765
Other costs	2,090,100	2,065,884	2,458,503	(392,619)
Total expenditures	<u>\$ 7,523,200</u>	<u>\$ 7,523,200</u>	<u>7,394,383</u>	<u>\$ 128,817</u>
Excess of revenue and other financing sources over expenditures and transfers			622,091	
Less reversion to the State General Fund			<u>(223,065)</u>	
Changes in fund balances according to statement of revenues, expenditures and changes in fund balance (GAAP basis)			<u>\$ 399,026</u>	

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—Budget and Actual (Budgetary Basis)
Major Governmental Funds
For the Year Ended June 30, 2014

	Public Election Fund (81200)			
	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive
Revenues				
General fund appropriation	\$ -	\$ -	\$ 300,000	\$ 300,000
Other financing sources	1,250,000	1,925,000	1,200,000	(725,000)
Interest income	-	-	1,381	1,381
Miscellaneous income	-	-	25,561	25,561
Total revenues	<u>\$ 1,250,000</u>	<u>\$ 1,925,000</u>	<u>1,526,942</u>	<u>\$ (398,058)</u>
Expenditures				
Contractual services	\$ -	\$ 250,000	250,000	\$ -
Other costs	<u>1,250,000</u>	<u>1,675,000</u>	<u>1,674,917</u>	<u>83</u>
	<u>\$ 1,250,000</u>	<u>\$ 1,925,000</u>	<u>1,924,917</u>	<u>\$ 83</u>
Excess of revenue and other financing sources over expenditures and transfers			<u>(397,975)</u>	
Changes in fund balances according to statement of revenues, expenditures and changes in fund balance (GAAP basis)			<u>\$ (397,975)</u>	

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—Budget and Actual (Budgetary Basis)
Major Governmental Funds
For the Year Ended June 30, 2014

	STB Capital Outlay (89200)			
	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive
Revenues				
Other financing sources	\$ 7,000,000	\$ 7,000,000	\$ 6,255,138	\$ (744,862)
Total revenues	<u>\$ 7,000,000</u>	<u>\$ 7,000,000</u>	<u>6,255,138</u>	<u>\$ (744,862)</u>
Expenditures				
Contractual services	\$ 600,000	\$ 143,275	362,149	\$ (218,874)
Capital outlay	6,400,000	6,856,725	6,415,326	441,399
Total expenditures	<u>\$ 7,000,000</u>	<u>\$ 7,000,000</u>	<u>6,777,475</u>	<u>\$ 222,525</u>
Excess of revenue and other financing sources over expenditures and transfers			<u>(522,337)</u>	
Changes in fund balances according to statement of revenues, expenditures and changes in fund balance (GAAP basis)			<u>\$ (522,337)</u>	

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—Budget and Actual (Budgetary Basis)
Major Governmental Funds
For the Year Ended June 30, 2014

	HAVA Fund (90300)			
	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues				
Interest income	\$ -	\$ -	\$ 101	\$ 101
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101</u>	<u>\$ 101</u>
Expenditures				
Elections program				
Contractual services	\$ -	\$ -	-	\$ -
Total expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Excess of revenue and other financing sources over expenditures and transfers			<u>101</u>	
Changes in fund balances according to statement of revenues, expenditures and changes in fund balance (GAAP basis)			<u>\$ 101</u>	

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—Budget and Actual (Budgetary Basis)
Major Governmental Funds
For the Year Ended June 30, 2014

	Arbitration Fund (02500)			
	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues				
Interest income	\$ -	\$ -	\$ 22	\$ 22
Miscellaneous income	-	-	2	2
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>24</u>	<u>\$ 24</u>
Expenditures				
Other costs	\$ 657	\$ 657	-	\$ 657
Total expenditures	<u>\$ 657</u>	<u>\$ 657</u>	<u>-</u>	<u>\$ 657</u>
Excess of revenue and other financing sources over expenditures and transfers			<u>24</u>	
Changes in fund balances according to statement of revenues, expenditures and changes in fund balance (GAAP basis)			<u>\$ 24</u>	

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

State of New Mexico
Office of the Secretary of State
Notes to Financial Statements
June 30, 2014

1) Reporting Entity

The State of New Mexico, Office of the Secretary of State (the “Office”), in accordance with the constitution and laws of the State of New Mexico, 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 Office is a department of the primary government, the State of New Mexico. These financial statements present the financial position and results of operation of only those Statewide Human Resources Accounting and Management Reporting System (SHARE) funds for which the NM Secretary of State (the Secretary) has oversight responsibility.

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.

2) Summary of Significant Accounting Policies

Accounting Standards

The financial statements of the Office conform with generally accepted accounting principles (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

State of New Mexico
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Notes to Financial Statements
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Basis of Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities present information about the Office's 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. Governmental activities are financed primarily through state appropriations.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Office's governmental activities. Direct expenses are those that are clearly identifiable to a particular function. Revenues that are not classified as program revenues, including all appropriations, other financing sources, and interest income, are presented as general revenues.

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.

The Office's fiduciary fund (agency fund) had no assets or liabilities as of June 30, 2014, therefore it is not presented in the fund financial statements. The schedule of changes in fiduciary assets and liabilities is presented in other supplementary information.

Governmental Funds

General Fund (SHARE 180000)—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

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June 30, 2014

the end of the fiscal year reverts to the General Fund of the State of New Mexico. Unexpended balances revert to the State General Fund. Reversion is calculated using a modified accrual basis of accounting. Under House Bill 46, the Secretary of State, pursuant to Article 11, Section 19 of the constitution of New Mexico, assumed responsibility for chartering corporations as provided by law, including the performance of the functions of the former corporations bureau of the Public Regulations Commission. As of July 1, 2013, all personnel and all money, appropriations, records, furniture, equipment, supplies and other property belonging to or used by the corporation bureau of the Public Regulation Commission was transferred to the Secretary of State.

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 position.

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.

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.

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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 nonbudgeted fund for fiscal year ending 2014.

Investments

Office investments are deposited in the New Mexico State Treasurer's State General Fund Investment Pool.

Accounts Receivable

All accounts receivable are fully collectible.

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. 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 five years for voting systems under the care and custody of the Counties.

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.

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Net Position and Fund Balances

The difference between fund assets and liabilities is “net position” on the government-wide statements and “fund balance” on governmental fund statements.

Net position is classified in the following three categories:

Invested in capital assets—consist of capital assets, net of accumulated depreciation. The Office has no outstanding debt relating to capital assets.

Restricted net position—restricted net position consists of net position 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.

Unrestricted net position—represents net position that does not meet the definition of the two preceding categories.

Fund balances related to the Office’s governmental funds are classified in the following categories:

Restricted—Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed—Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the Office through ordinance or resolution approved prior to year-end. The committed amounts cannot be used for any other purpose unless the Office removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned—All amounts not included in other spendable classifications.

The STB Capital Outlay Fund has a deficit fund balance of \$513,807. This will be recovered through appropriations in fiscal year 2015.

When both restricted and unrestricted resources are available for use, it is the Office’s policy to use restricted resources first, and then unrestricted resources as they are needed.

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.

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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.
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 nonbudgeted 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 30th or are multi-year appropriations.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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Interfund 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. Interfund receivables or payables at year-end are netted as part of the reconciliation to the government-wide financial statements.

New Governmental Accounting Standards Board (GASB) Pronouncements

The following accounting standards have recently been issued, but not yet been implemented by the Office:

GASB Statement No. 68—In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement no. 27. This statement is effective for the Office’s year ending June 30, 2015. The new standard will substantially change accounting and financial reporting for the Office’s participation in the Public Employees Retirement System (PERA), a cost sharing multiple-employer defined benefit retirement plan. The new standard will require the Office’s financial statements that use the economic resources measurement focus and accrual accounting to recognize a liability for the Office’s proportionate share of PERA’s net pension liability, and to recognize pension expense, and to report deferred outflows of resources and deferred inflows or resources related to pensions, for its proportionate shares of PERA’s collective pension expense and collective deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 69—In January 2013, the GASB issued Statement no. 69, Government Combinations and Disposals of Government Operations. This statement is effective for the Office’s year ending June 30, 2015. Implementation is not expected to significantly impact accounting or financial reporting by the Office.

GASB Statement No. 71—In November 2013, the GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68. This statement is effective for the Office’s fiscal year ending June 30, 2015.

3) Investment in State General Fund Investment Pool

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the “Pool”) which is managed by the Office of the State Treasurer. The Pool is not a part of the accompanying financial statements, but is reported as fiduciary fund in the financial statements of the Treasurer’s Office. Claims on the Pool are reported as assets by the various agencies investing in the

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Pool. By statute, the Department of Finance and Administration (DFA) is responsible for reconciling the Pool balances. As of June 30, 2014, the Office reported an aggregate investment of \$2,831,828 in the Pool.

The statewide cash balance in the SHARE general ledger accounts have not been reconciled to the Pool since the implementation of SHARE in July 2006. In prior years it was reported the Phase I of the Cash Management Remediation Project (completed in May 2013) implemented statewide business process changes and corrected numerous SHARE System configurations. As a result of the changes and corrections, the Department of Finance & Administration's Financial Control Division began reconciling activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013

The Historical Cash Reconciliation Project in partnership with an external accounting firm commenced on July 11, 2014. The scope of this project was the period of July 1, 2006 to January 31, 2013. The final report from the historical reconciliation has not been released as of December 9, 2014. However, based on the Historical Cash Reconciliation Project draft report, the State was unable to complete a reconciliation of all transactional data for the entire period. Specifically, complete data sets from agency external systems (third-party and payment load) could not be provided in a number of cases.

Given these facts regarding incomplete population data sets, as well as the magnitude and complexity of the State's transactions during the period of July 1, 2006 – January 31, 2013, it is not possible to perform a 100%, complete and accurate historical reconciliation of all general ledger and bank activity for this period. Determining a reliable amount of any adjustments to the State General Fund Investment Pool's SHARE balances at the business unit/ Office level as a result of the Historical Cash Reconciliation Project will not be possible at this time.

DFA/FCD has determined that as information becomes available to allow for corrections of the Office's cash balances within the State General Ledger for the period from July 1, 2006 through January 31, 2013, the historical cash reconciliation related accounting adjustments will be made against the State's Operating Reserve Fund within the State's General Fund. No accounting adjustments will be applied to any prior period of any specific business unit of the State.

DFA's management in FY 2014 recorded a loss contingency of \$100 million in the State General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that DFA management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

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The Office recognized the statewide cash reconciliation issues identified above 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. This process has been in place since the inception of SHARE.

The monthly internal reconciliation of cash receipts and disbursements flowing through the Office's interest in 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.

4) 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, 2014 the Office had the following invested in the General Fund Investment Pool:

SHARE Account	Fund Description	SHARE Balance
18000	General Fund	\$ 1,943,533
81200	Public Election Fund	1,127,633
90300	HAVA Fund	300
02500	Arbitration Fund	<u>30,386</u>
		<u>\$ 3,101,852</u>
	Severance Tax Bond Capital	
89200	Outlay Fund (overdrawn)	<u>\$ 270,024</u>

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.

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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, 2014.

5) Interfunds

The amounts due from other agencies in the statement of net position consist of grants and other receivables at year end.

The amount due to the State General Fund in the statement of net position of \$223,065 is for the current fiscal year reversion.

6) Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance June 30, 2013	Additions	Balance June 30, 2014
Computer equipment, software and furniture	\$ 1,841,201	\$ 328,352	\$ 2,169,553
Voting systems under the care and custody of the Counties	<u>19,176,850</u>	<u>6,086,974</u>	<u>25,263,824</u>
Total capital assets	<u>21,018,051</u>	<u>6,415,326</u>	<u>27,433,377</u>
<i>Less accumulated depreciation for</i>			
Computer equipment, software and furniture	(1,375,284)	(409,115)	(1,784,399)
Voting systems under the care and custody of the Counties	<u>(19,176,850)</u>	<u>(101,450)</u>	<u>(19,278,300)</u>
Total accumulated depreciation	<u>(20,552,134)</u>	<u>(510,565)</u>	<u>(21,062,699)</u>
Net capital assets	<u>\$ 465,917</u>	<u>\$ 5,904,761</u>	<u>\$ 6,370,678</u>

Depreciation expense for the year ended June 30, 2014, was \$510,565. The capital assets are used by all functions. The Office does not own any infrastructure assets as of June 30, 2014.

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7) Accrued Compensated Absences

The following is a summary of transactions for the compensated absences for the year ended June 30, 2014, which the general fund will pay in future years:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014	Current Portion
Annual leave	\$ 112,624	\$ 126,256	\$ 115,060	\$ 123,820	\$ 61,910
Sick leave	4,984	-	2,701	2,283	1,142
Compensatory leave	-	9,255	-	9,255	4,627
Total	<u>\$ 117,608</u>	<u>\$ 135,511</u>	<u>\$ 117,761</u>	<u>\$ 135,358</u>	<u>\$ 67,679</u>

The current portion of the compensated absences balance is \$67,679.

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.

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 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, 2014, 2013 and 2012, were \$388,084, \$243,176 and \$214,432, respectively, equal to the amount of the required contributions for each fiscal year.

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9) Post Retirement Benefits—Retiree Health Care Plan

Plan Description

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.

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June 30, 2014

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Office's contributions to the RHCA for the years ended June 30, 2014, 2012 and 2011, were \$46,859, \$28,446 and \$26,876, 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

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participants by the Office have been paid to the New Mexico Public Employees Retirement Association, which administers the plan.

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, 2014, was \$1,704,899, for rental of ballot printers for the primary election. Future lease payments are as follows:

Year Ending June 30,	
2015	\$ 17,176
2016	13,656
2017	<u>13,656</u>
Total due	<u>\$ 44,488</u>

12) 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. Except for as noted in Note 15, there are no material matters outstanding at June 30, 2014. The Office expended \$152,900 for this coverage.

13) Special and Deficiency Appropriations

The Office received a special appropriation under Laws of 2013, Chapter 227, Section 5 for \$350,000 for use in fiscal year 2013 and 2014, for transition costs associated with the transfer of responsibility for chartering and regulating corporations from the Public Regulatory Commission to the Secretary of State, contingent on enactment of House Bill 46 or similar legislation of the first session of the fifty-first legislature. As of June 30th, the Office had expended \$272,818, unexpended amounts are reflected as committed fund balance in the accompanying financial statements.

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June 30, 2014

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, 2014, \$72,345 remained unexpended; the project will end no later than the end of fiscal year 2016.

14) Multi-Year Appropriations

At year-end, the Office has three outstanding multi-year appropriations which are reported as restricted net position in the accompanying financial statements as follows:

- ◆ Laws 2012, 2S, Ch. 19, Sec. 7(10) - \$220,000 to replace network infrastructure, conduct a requirements assessment to replace the Secretary of State knowledge base, and to complete the campaign finance information system. Unexpended amounts lapse in fiscal 2014. As of year-end, the Office has unexpended balance of \$59,001.
- ◆ Laws 2013, 1S, Ch. 227, Sec. 7(10) - \$215,000 to purchase and implement new software and related information technology for the business services division of the Secretary of State. Unexpended amounts lapse in fiscal 2015. As of year-end, the Office has unexpended balance of \$215,000.
- ◆ As stated above, the Office received a special appropriation under Laws of 2013, Chapter 227, Section 5 for \$350,000 for transition costs. Unexpended amounts lapse in fiscal 2014. As of year-end, the Office has unexpended balance of \$77,182.

15) Subsequent Event

After year-end the Office purchased tabulators and accessories for 28 counties in the amount of \$6,188,150. This was for Phase II of the Office's tabulator purchases.

Also, as of October 27, 2014, the Secretary of State's Office has been ordered to pay the Constitution Party of New Mexico \$53,414. This will be paid during fiscal year 2015. Net position has been reserved for this amount.

Supplementary Information

State of New Mexico
Office of the Secretary of State
Schedule of Changes in Fiduciary Assets and Liabilities – Agency Funds
For the Year Ended June 30, 2014

	Beginning Balance	Increase	Decrease	Ending Balance
Assets				
Interest in SGFIP	<u>\$ 3,639</u>	<u>\$ 616,000</u>	<u>\$ (619,639)</u>	<u>\$ -</u>
Liabilities				
Due to state general fund	<u>\$ 3,639</u>	<u>\$ 616,000</u>	<u>\$ (619,639)</u>	<u>\$ -</u>

See Independent Auditor's Report.

State of New Mexico
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Schedule of Operating Transfers
For the Year Ended June 30, 2014

SHARE Fund	Agency	In	Out
General Fund (18000)			
(1) 85300	Department of Finance and Administration	\$ 6,427,700	\$ -
(2) 85300	Department of Finance and Administration	700,000	-
(3) 85300	Department of Finance and Administration	861,000	-
(4) 85300	Department of Finance and Administration	19,500	-
(5) 85300	Department of Finance and Administration	-	223,065
STB Capital Outlay (89200)			
(6) 99500	Board of Finance	313,318	-
(7) 99500	Board of Finance	5,941,820	-
Public Election Fund (81200)			
(8) 71000	Taxation and Revenue Department	1,200,000	-
(9) 50800	Public Regulation Commission (PRC)	200,000	-
(9) 50800	Public Regulation Commission (PRC)	100,000	-
	Total	<u>\$ 15,763,338</u>	<u>\$ 223,065</u>

- (1) General fund appropriations
- (2) Laws 2014, 2S, Ch. 63, Sec. 5(30).
- (3) Laws 2013, 1S, Ch. 227, Sec. 7(10).
- (4) FY 14 General Fund Compensation Distribution
- (5) Reversion to State General Fund
- (6) Severance Tax Bonds, 13a 13-1810
- (7) Severance Tax Bonds, 13a 13-1811
- (8) Distribution from the Tax Administration Suspense Fund under Section 7-1-6.58 NMSA 1978.
- (9) Public election fund from PRC per Section 1-19A-10-NMSA 1978.

Compliance Section

Independent Auditor's 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*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the budgetary 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, 2014, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated December 15, 2014. We modified our report for the for the General Fund and major special revenue funds, as more fully described in our audit opinion beginning on page one.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Office's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we considered to be a significant deficiency as item 2014-001.

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, our tests disclosed an instance of noncompliance that is required to be reported by Section 12-6-5 NMSA 1978 which is described in the accompanying schedule of findings and responses as item 2011-005.

The Office's Responses to Findings

The Office's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Office's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "REDW LLC". The signature is written in a cursive, stylized font.

Albuquerque, New Mexico
December 15, 2014

State of New Mexico
Office of the Secretary of State
Schedule of Findings and Responses
For the Year Ended June 30, 2014

Section I — Financial Statement Findings

2014-001 — Capital Assets Management—Capital Assets Listing (Significant Deficiency)

Criteria: In order to maintain accurate capital asset records the Office should not place items into service until they are added to their capital asset listing.

Condition: The Office purchased \$6,086,974 in new voting machines during the year. These machines were custom built and were completed close to the date needed for the Primary Election. In order to meet the statutory deadline for early voting, the equipment was sent directly to the counties and placed in service prior to being added to the Office's capital asset listing in accordance with their policy. An adjustment was required to accurately reflect the addition of the voting machines in the Office's capital asset balance.

Cause: The Office did not have adequate controls in place in order to prevent assets from being put into service before being placed on their capital asset listing.

Effect: A material adjustment was required in order to accurately present the Office's capital asset balance.

Auditor's Recommendations: We recommend that the Office follow their process of tagging inventory and adding it to their capital asset listing before putting them in service. This is especially important with the Office's voting machines as they are not held at the Office but rather disbursed to counties throughout the state.

Office's Response: The Office has created and filled an Assets and Contracts Manager position to ensure adequate controls over its capital assets. The Office has obtained all necessary information to tag all newly acquired voting equipment. All equipment has been added to the capital asset listing.

State of New Mexico
Office of the Secretary of State
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2014

Section II — Other Findings, as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978

2011-005 — Cash Receipts (Revised and Repeated) (Other)

Criteria: The Public Money Act [Chapter 6-10-3 New Mexico Statutes Annotated (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.

Condition: Three of ten cash receipts tested were not deposited within 24 hours. These deposits related to the corporation's bureau of the Public Regulation Commission, which is now under the Office.

Cause: The corporation's bureau did not deposit three of the receipts we selected within 24 hours.

Effect: The Office did not comply with the Public Money Act in relation to the 24 hour deposit rule.

Auditor's Recommendations: We recommend that the Office put in place procedures for the Corporations bureau that follow those already in place in the other receipting locations in order to comply with the Public Money Act.

Office's Response: The conditions relating to the previous audit findings have been resolved, as they were related to copying fees, blue books, and other fees.

On July 1, 2013, when the Corporations Bureau was inherited by the Office from the PRC, there was a 110-day backlog in processing applications, whose payments were kept with the applications. Due to the high rate of incomplete or incorrect filings, the Corporations Bureau does not deposit the application fee until the filing is accepted and processed. Currently, the Office is in the process of implementing a new business filing system which will enable each application to be reviewed for accuracy and completeness upon receipt; if the application is deemed acceptable, the fee will be deposited within 24 hours; if incomplete or unacceptable, the transaction and payment will be returned in full to the applicant in the same day. This will allow the office to meet the Public Money Act.

State of New Mexico
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Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2014

Reference Number	Finding	Status
2011-005 (2011-5)	Cash Receipts	Unresolved
2013-1	Capital Assets Management	Resolved

State of New Mexico
Office of the Secretary of State
Other Disclosures
For the Year Ended June 30, 2014

Exit Conference

The contents of the Office's report were discussed on December 10, 2014. The following individuals were in attendance:

Office of the Secretary of State

Mary Quintana	Deputy Secretary of State
Ken Ortiz	Administrator of Business Services
Veronica Albin	Director of Finance and Administration

REDW_{LLC}

Tom Friend	Principal
Javier Machuca	Senior Manager
Danny Martinez	Manager

Preparation of Financial Statements

REDW assisted in the preparation of the financial statements presented in this report. The Office's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.