



STATE ETHICS COMMISSION

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FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2020

STATE OF NEW MEXICO

NEW MEXICO STATE ETHICS COMMISSION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2020

**NEW MEXICO STATE ETHICS COMMISSION
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**NEW MEXICO STATE ETHICS COMMISSION
OFFICIAL ROSTER
JUNE 30, 2020**

COMMISSIONERS

Hon. William F. Lang (Ret.)	Chair
Jeffrey L. Baker	Member
Stuart M. Bluestone	Member
Hon. Garrey Carruthers	Member
Ronald Solimon	Member
Dr. Judy Villanueva	Member
Frances F. Williams	Member

ADMINISTRATIVE OFFICIALS

Jeremy D. Farris	Executive Director
Wendy George	Chief Financial Officer
Walker Boyd	General Counsel
Sonny Haquani	Communications Director



INDEPENDENT AUDITORS' REPORT

Mr. Brian S. Colón, Esq., New Mexico State Auditor and
Executive Director
New Mexico State Ethics Commission
Albuquerque, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major general fund, and the budgetary comparison of the general fund of the New Mexico State Ethics Commission (the Commission), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Commission'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 misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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 audit opinions.

Mr. Brian S. Colón, Esq., New Mexico State Auditor and
Executive Director
New Mexico State Ethics Commission

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major general fund as of June 30, 2020, the respective changes in financial position and budgetary comparison of the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Commission are intended to present the net position and the changes in net position of only that portion of the governmental activities, the major fund, and the budgetary comparison statement for the general fund that are attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the net position of the state of New Mexico as of June 30, 2020, and the changes in its net position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with 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 3 through 5 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 financial statements that collectively comprise the Commission's basic financial statements. The Schedule of Joint Powers Agreements is presented for purposes of additional analysis as required by the State Audit Rule and is not a required part of the basic financial statements.

The Schedule of Joint Powers Agreements is the responsibility of management and was derived from and relates 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 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 as a whole.

Mr. Brian S. Colón, Esq., New Mexico State Auditor and
Executive Director
New Mexico State Ethics Commission

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2020, on our consideration of the Commission'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 solely 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 effectiveness of the Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Albuquerque, New Mexico
October 29, 2020

**NEW MEXICO STATE ETHICS COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

As management of the state of New Mexico State Ethics Commission (the Commission), we offer readers of the Commission's financial statements this narrative overview and analysis of the Commission's financial performance during the fiscal year ended June 30, 2020. Please read the Commission's financial statements, which follow this section, in conjunction with this narrative.

Financial Highlights

During the fiscal year, the Commission operated within the confines of the approved budget.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report, the basic financial statements of the Commission, governmental fund statement, and required supplemental information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Commission report information of the Commission using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The statement of net position includes all of the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Commission's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Commission and assessing the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the statement of activities. This statement measures the success of the Commission's operations over the past year.

The fund financial statements provide information about the Commission's significant funds. Funds are used to track specific sources of funding and spending for the Commission's activities. The Commission operates with appropriations approved each year by the state legislature.

Financial Analysis of the Commission

The statement of net position and the statement of activities report information about the Commission's activities in a way that will show the change in the Commission's financial condition. These two statements report the net position of the Commission and the changes in them. One can think of the Commission's net position, the difference between assets and liabilities, as one way to measure financial health or financial position.

**NEW MEXICO STATE ETHICS COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

	<u>2020 First Year of Operations</u>
Assets:	
Investment Account with State Treasurer	\$ 116,808
Intangible Assets, Net	<u>92,012</u>
Total Assets	<u>208,820</u>
Liabilities:	
Current Liabilities	<u>\$ 131,540</u>
Total Liabilities	<u>131,540</u>
Net Position	<u><u>\$ 77,280</u></u>

The only assets are the investment account with the State General Fund Investment Pool of \$116,808, which increased by \$116,808 from the prior year due to the payment of FY20 general appropriations, and intangible assets, of \$92,012, which were placed in service during FY20. During the same period, liabilities increased by \$131,540 due to operating expenditures. The increase in assets after the offset by the increase in liabilities resulted in an increase of \$77,280 in Net Position.

	<u>2020 First Year of Operations</u>
Government Activities:	
Personal Services and Fringe Benefits	\$ 286,329
Contractual Services	65,730
Other Cost	<u>100,502</u>
Total Government Activities	452,561
General Revenues:	
State General Fund Appropriations	200,000
Interagency Transfers	500,000
Reversions to State General Fund	<u>(170,159)</u>
Total General Revenues	<u>529,841</u>
Change in Net Position	77,280
Net Position - Beginning of Year	<u>-</u>
Net Position - End of Year	<u><u>\$ 77,280</u></u>

**NEW MEXICO STATE ETHICS COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

General Fund Budgetary Highlights

The Commission depends on appropriations from the New Mexico State General Fund. The State Legislature in the General Appropriations Act, Laws of 2019, Chapter 271, Section 5 appropriated \$ 500,000 to the Department of Finance and Administration for the creation of the State Ethics Commission. Additionally, the State Legislature in the General Appropriations Act, Laws of 2020, Chapter 83, Section 6, appropriated an additional \$200,000 to the State Ethics Commission.

Legislative Highlights

The State Ethics Commission came into existence on July 1, 2019 to promote the integrity of government through the interpretation, enforcement, and improvement of New Mexico's governmental conduct, procurement, and financial disclosure laws. In FY20, the Commission focused on establishing the Commissioners, hiring initial staff, and developing and implementing the processes by which the Commission will adjudicate ethics complaints, investigate and enforce New Mexico's ethics laws, and provide guidance and training to government officials and employees. The Commission's jurisdiction and enforcement authority began on January 1, 2020.

Future Years

The Legislature has appropriated \$946,200 to the Commission for expenditure in FY21. The current pandemic requires the Commission to build its operations on a virtual and remote platform and future revenue projections continue to show a depressed outlook for FY22. The substantial uncertainty surrounding the severity and duration of the economic impacts attributable to the coronavirus public health emergency, and subsequent federal fiscal policy and state fiscal policy responses to the public health emergency, are the largest factors impacting the Commission's future ability to address priorities and expand duties in FY21 and FY22.

The Commission strives to allocate its limited resources in ways that will best promote and ensure the public's trust. The Commission's priorities in FY21 and FY22 include:

1. Develop and publish on the Commission's website step-by-step video tutorials that explain how to use the Commission's web-based case filing and docketing system
2. Improve and further streamline the adjudication of administrative complaints by amending 1.8.3 NMAC via rulemaking
3. Promulgate a regulation that allows for the issuance of expedited informal advisory opinions.
4. Promulgate proposed code of ethics.
5. Work with the Compilation Commission to include State Ethics Commission advisory opinions on NMOneSource.com
6. Prepare and deliver a report to the Legislature and the Governor regarding the expansion of the Commission's subject-matter jurisdiction (e.g., additional laws, such as the Emoluments Clause) and personal jurisdiction (e.g., officials and employees of local public bodies)
7. Prepare and deliver a report on potential amendments to the Governmental Conduct Act and other government ethics laws in advance of the 2022 legislative session.
8. Recruit and hire additional FTEs to enable and support the Commission's increase in adjudicatory, enforcement, and guidance functions, particularly with respect to any plans regarding expanded jurisdiction.

**NEW MEXICO STATE ETHICS COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

Contacting the Commission

This financial report is designed to provide our citizens with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. The Commission has no knowledge of any facts, decisions, or conditions that would have a significant effect on the Commission's financial position or results of operations. If you have questions about this report or need additional financial information, you may contact the Commission at 800 Bradbury Drive SE, Suite 215, Albuquerque, New Mexico 87106.

**NEW MEXICO STATE ETHICS COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2020**

	<u>Governmental Activities</u>
ASSETS	
Investment in State General Fund Investment Pool	\$ 116,808
Intangible Assets, Net of Accumulated Depreciation	<u>92,012</u>
Total Assets	<u><u>\$ 208,820</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts Payable	\$ 94,741
Accrued Liabilities	22,067
Compensated Absences	<u>14,732</u>
Total Liabilities	<u>131,540</u>
NET POSITION	
Net Investment in Capital Assets	25,594
Unrestricted	<u>51,686</u>
Total Net Position	<u><u>\$ 77,280</u></u>

See accompanying Notes to Financial Statements.

**NEW MEXICO STATE ETHICS COMMISSION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

	<u>Governmental Activities</u>
EXPENSES	
General Government:	
Personal Services and Fringe Benefits	\$ 286,329
Contractual Services	65,730
Other Costs	<u>100,502</u>
Total Expenses	<u>452,561</u>
 GENERAL REVENUES	
State General Fund Appropriations	200,000
Interagency Transfers In	500,000
Reversions to State General Fund	<u>(170,159)</u>
Total General Revenues	<u>529,841</u>
 CHANGE IN NET POSITION	 77,280
Net Position - Beginning of Year	<u>-</u>
 NET POSITION - END OF YEAR	 <u><u>\$ 77,280</u></u>

See accompanying Notes to Financial Statements.

**NEW MEXICO STATE ETHICS COMMISSION
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2020**

	General Fund
ASSETS	
Investment in State General Fund Investment Pool	\$ 116,808
Total Assets	\$ 116,808
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 94,741
Accrued Liabilities	22,067
Total Liabilities	116,808
FUND BALANCE	
Total Liabilities and Fund Balance	\$ 116,808

See accompanying Notes to Financial Statements.

**NEW MEXICO STATE ETHICS COMMISSION
RECONCILIATION OF BALANCE SHEET – GOVERNMENTAL
FUND TO STATEMENT OF NET POSITION
JUNE 30, 2020**

Total Fund Balance	\$ -
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds.	92,012
Compensated absences liability not recorded in the governmental funds, but recorded as liabilities in the Statement of Net Position.	<u>(14,732)</u>
Net Position of Governmental Activities (Statement of Net Position)	<u><u>\$ 77,280</u></u>

See accompanying Notes to Financial Statements.

**NEW MEXICO STATE ETHICS COMMISSION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUND – GENERAL FUND
YEAR ENDED JUNE 30, 2020**

EXPENDITURES

Current:

Personal Services and Fringe Benefits	\$ 271,597
Contractual Services	65,730
Other Costs	99,154
Capital Outlay	93,360
Total Expenditures	<u>529,841</u>

Excess (Deficiency) of Revenue Over Expenditures	(529,841)
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OTHER FINANCING SOURCES (USES)

State General Fund Appropriations	200,000
Transfers In from Other State Agencies	500,000
Reversions to State General Fund - FY2020	(170,159)
Total Other Financing Sources (Uses)	<u>529,841</u>

NET CHANGE IN FUND BALANCE

Fund Balance - Beginning of Year	<u>-</u>
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FUND BALANCE - END OF YEAR

	<u><u>\$ -</u></u>
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**NEW MEXICO STATE ETHICS COMMISSION
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – GOVERNMENTAL FUND TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

Net Changes in Fund Balance - Total Governmental Funds (Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds)	\$	-
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Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, these costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expense in the Statement of Activities.

Capital Asset Additions	\$	93,360	
Depreciation Expense		(1,348)	
Total		92,012	92,012

Some items reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase in Compensated Absences		(14,732)
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Change in Net Position of Governmental Activities (Statement of Activities)	\$	<u>77,280</u>
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**NEW MEXICO STATE ETHICS COMMISSION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2020**

	General Fund			Variance with Final Budget Favorable (Unfavorable)
	Original Approved Budget	Final Approved Budget	Actual	
REVENUES				
State General Fund Appropriation	\$ -	\$ 200,000	\$ 200,000	\$ -
Transfers In from Other State Agencies	500,000	500,000	500,000	-
Total Revenues	500,000	700,000	700,000	-
EXPENDITURES				
Current:				
Personal Services and Fringe Benefits	372,198	344,055	271,597	72,458
Contractual Services	45,000	189,961	159,090	30,871
Other Costs	82,802	165,984	99,154	66,830
Total Expenditures	500,000	700,000	529,841	170,159
Excess of Revenue Over (Under) Expenditures	\$ -	\$ -	170,159	\$ (170,159)
Fund Reversions - 2020			(170,159)	
NET CHANGE IN FUND BALANCE			\$ -	

See accompanying Notes to Financial Statements.

**NEW MEXICO STATE ETHICS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the New Mexico State Ethics Commission (the Commission) have been prepared in conformity with accounting principles generally accepted in the United States of America (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 Commission's accounting policies are described below.

Reporting Entity

The State Ethics Commission is an independent state agency of the State of New Mexico, which is the primary government, created by Article V, Section 17 of the New Mexico Constitution to promote full compliance with the state laws that require our state government to be democratic, responsive to the public's interest, and ethical. Those public accountability laws include: the Campaign Reporting Act, the Financial Disclosure Act, the Gift Act, the Lobbyist Regulation Act, the Voter Action Act, the Governmental Conduct Act, the Procurement Code, the State Ethics Commission Act, and Article IX, Section 14 of the New Mexico Constitution, commonly known as the "Anti-Donation Clause".

The Commission works to achieve its goals by adjudicating ethics complaints, initiating civil enforcement actions in court, issuing advisory opinions, proposing amendments to ethics laws, drafting a model ethics code for other state agencies, and providing ethics trainings.

The Commission is bipartisan. Any action taken by the seven-member Commission requires the concurrence of two Commissioners of the largest political party in the state and two Commissioners of the second largest political party in the state. Furthermore, the State Ethics Commission Act provides that the Commission may not have more than three members of the same political party.

The State Ethics Commission is comprised of seven commissioners. The State Ethics Commission Act sets forth a procedure for appointing commissioners that ensures an independent commission.

The Commission's appointment structure is unique. The Speaker of the House of Representatives, the Minority Floor Leader of the House, the President Pro Tempore of the Senate, and the Minority Floor Leader of the Senate each appoint one Commissioner. The four legislatively-appointed Commissioners then appoint two additional Commissioners. Finally, the Governor appoints the Commission's Chair, who must be a retired judge. Except for the initial Commissioners, the Commissioners are appointed for staggered terms of four years. No Commissioner may serve more than two consecutive four-year terms.

Basic Financial Statements

The basic financial statements include both government-wide (based on the Commission as a whole) and fund financial statements. The reporting model focus is on either the Commission as a whole, or major individual funds (within the fund financial statements). Both the government wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities.

**NEW MEXICO STATE ETHICS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basic Financial Statements (Continued)

The Commission has only governmental type activities. In the government-wide statement of net position, the governmental column reflects a full accrual, economic resources basis, which incorporates long-term assets as well as long-term debt obligations, if any. The commission has no component units to report.

The government-wide statement of activities reflects both the gross and net cost per functional category, which is otherwise being supported by general government revenues. The statement of activities reduced gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. The Commission includes only one function (general government). There are neither fiduciary funds nor component units that are fiduciary in nature.

General revenues (general fund appropriation, transfers-in from other state agencies) normally cover the net cost (by function). This government-wide focus is more on the sustainability of the Commission as an entity and the change in aggregate financial position.

Fund Accounting

The Commission uses funds to report on its financial position and results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. The Commission's resources are allocated to and accounted for in individual funds based upon the purpose for which spending activities are controlled. The various funds are grouped, in the financial statements of this report, into generic fund types and categories, as follows:

Governmental Fund Types

General Fund (Fund 20780) – The General Fund is the general operating fund of the Commission. It is used to account for all financial resources. The fund is a reverting fund.

Measurement Focus and Basis of Accounting

The term measurement focus is used to denote what is being measured and reported in the Commission's operating statement. The government-wide financial statements of the Commission are accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Commission is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the Commission's operating statement. The Commission uses the full accrual basis of accounting for the government-wide financial statements. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

**NEW MEXICO STATE ETHICS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (Continued)

The governmental funds use the current financial resource measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., both measurable and available. For this purpose, the Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

Budget and Budgetary Accounting

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

1. Prior to September 1, the Commission submits to the State Budget at the 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 hearing with the Commission, the DFA, and the LFC prepare their own budget recommendations to the legislature.
3. Budget hearings are then scheduled before the finance committees of the New Mexico House of Representatives and, if necessary, the New Mexico Senate. The final outcome of these hearings is incorporated into the General Appropriations Act.
4. The Commission then submits, on or before May 1, an annual operating budget request to the Department of Finance and Administration's (DFA) State Budget Division who reviews the request and subsequently approves the budget based upon the appropriation made by the legislature. All subsequent budget transfers and increases must be authorized by the Director of the State Budget Division.
5. Legal budget control for expenditures is by category of line item.
6. Formal budgetary integration is employed as a management control device during the fiscal year for the general fund. The budget of the general fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Per the General Appropriations Act, the budgetary basis is modified accrual. However, there is a statutory exception. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget.
7. When the appropriations lapse, so does the authority for the budget. Encumbrances can no longer be charged to that budget. All unspent appropriations in the general fund revert to the state general fund.

**NEW MEXICO STATE ETHICS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget and Budgetary Accounting (Continued)

8. Any adjustments to the appropriated budget must be submitted to DFA in the form of a budget adjustment request (BAR). The original budget for the Commission for the year ended June 30, 2020 was not amended.

Use of Estimates

Preparation of financial statements in conformity with GAAP required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

The Commission's funds are held on deposit with the State Treasurer's Office.

Capital Assets

Capital assets purchased or acquired at a value of \$5,000 or greater are capitalized per Section 12- 6-10 NMSA 1978. Assets are carried at historical cost or estimated historical cost. Contributed assets are recorded at their acquisition value at the time of acquisition. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed when incurred. Depreciation on all assets is provided on the straight line basis over the following estimated useful life with no salvage value:

Website	3 Years
Case Management System	7 Years

Compensated Absences

Vacation, compensatory and sick time is reported as a liability in the government-wide financial statements, with expenses being reported during the period that leave is accrued. The fund financial statements reports expenditures during the period that employees are actually paid, or when compensated absences are liquidated with expendable financial resources from the operational portion of state general fund appropriations. Employees are entitled to accumulate annual leave at a graduated rate based on years of service. A maximum of 240 hours can be carried forward at calendar year end. Employees are entitled to accumulate unlimited sick leave at the rate of one day for each month of service. Employees may elect to be compensated for sick leave in excess of 600 hours at half the employee's hourly rate in any fiscal year, not to exceed 120 hours, unless retiring. Retiring employees may convert up to 400 hours in excess of the 600 hours at half the retiring employee's hourly rate. This election may be made at retirement or at specified times during the employment year. The Commission also allows eligible employees to defer being paid overtime in exchange for compensatory time.

**NEW MEXICO STATE ETHICS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

The Commission, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Overall, the total pension liability exceeds plan net position, resulting in a net pension liability. The State has determined the State's share of the net pension liability to be a liability of the State as a whole, rather than any agency or department of the State and no liability will be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico. Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

Postemployment Benefits – State Retiree Health Care Plan

The Commission, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple-employer defined benefit postemployment health care plan that provides comprehensive group health insurance for persons who have retired from certain public service positions in New Mexico. The other postemployment benefits (OPEB) plan is administered by the Retiree Health Care Authority of the State of New Mexico. Overall, total OPEB liability exceeds OPEB plan net position resulting in a net OPEB liability. The State has determined the State's share of the net OPEB liability to be a liability of the State as a whole, rather than any agency or department of the State and the liability will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico. Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico Comprehensive Annual Financial Report.

Operating Revenues

Operating revenues of the Commission are budgetary allocations of the state general fund.

Reversions

Revenues that have not been expended and are not appropriated for a period of longer than one year revert to the state general fund. Accordingly, reversions have been recorded in the current year for unspent portion of the state general fund appropriation.

Use of Restricted and Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net positions are available, the Commission's policy is to apply unrestricted net position first.

**NEW MEXICO STATE ETHICS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

The Commission follows GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Spendable fund balance is shown by the most binding constraint, which is restricted by an external resource or enabling legislation. Beginning with the most binding constraints, fund balance amounts are reported in the following classifications:

Restricted

Amounts can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The Commission's general fund is a reverting fund and there is no ending fund balance.

Committed

Amounts that can be used only for the specific purposes determined by a formal action of the Commission's highest level of decision-making authority, which is the board of directors.

Assigned

Amounts intended to be used by the Commission for specific purposes, but that do not meet the criteria to be classified as restricted or committed.

Unassigned

The residual classification for the Commission's general fund. This includes all amounts not contained in the other classifications.

Net Position

The government-wide fund financial statements utilize a net position presentation. Net Position is categorized as investment in capital assets, restricted, and unrestricted. Net position is defined by GAAP as the residual of all assets, liabilities, deferred outflows of resources, and deferred inflows of resources. There were no deferred inflows or deferred outflows for the year.

Net Investment in Capital Assets

Net investment in capital assets is intended to reflect the portion of net position which is associated with capital assets.

Restricted Net Position

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

Unrestricted Net Position

Unrestricted assets represent unrestricted assets. Unrestricted deficit results mainly from the recording of the compensation absences liability for which future state appropriations will pay the liability.

**NEW MEXICO STATE ETHICS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 NEW MEXICO STATE TREASURER INVESTMENT POOL

Interest in the General Fund Investment Pool

State law (Section 8-6-3 NMSA 1978) requires the Commission's cash be managed by the New Mexico State Treasurer's Office (STO). Accordingly, the investments of the Commission consist of an interest in the general fund investment pool managed by STO.

Balance in the New Mexico State Treasurer's Investment Pool	<u>\$ 116,808</u>
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The state treasurer invests excess cash balances on behalf of certain earmarked funds of state agencies identified by state statute and local governments. Interest earnings are distributed based on average outstanding cash balances for local governments and the state agencies where interest is allowed to be earned. All other interest earnings are transferred to the state general fund.

The state treasurer deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the \$250,000 in insurance coverage provided by federal agencies. Accordingly, the state treasurer requires that depository financial institutions provide additional collateral for such investments. The collateral generally is in the form of marketable debt securities and is required in amounts ranging from 50% to 102% of the par value of the investment dependent upon the institution's operating results and capital. Collateral for the fiscal agent account is required in amounts equal to 50% of the average investment balance.

The Commission follows GASB 40, *Deposit and Investment Risk Disclosures*. GASB 40 requires certain disclosures when balances with financial institutions exceed depository insurance. The Commission does not have credit quality, Deposit Custodial Credit, Security Custodial Credit, Concentration of Credit, or Foreign Currency Risks.

Interest Rate Risk – The STO 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.

For additional GASB 40 disclosure information regarding cash held by the state treasurer, the reader should see the separate financial statements for the state treasurer's office for the fiscal year ended June 30, 2020.

State General Fund Investment Pool

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the STO. Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

**NEW MEXICO STATE ETHICS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 3 CAPITAL ASSETS

Capital Asset Activity for the year ended June 30, 2020 was as follows:

	Balance June 30, 2019	Additions	Retirements	Balance June 30, 2020
Intangible Assets:				
Software	\$ -	\$ 93,360	\$ -	\$ 93,360
Total Capital Assets	-	93,360	-	93,360
Accumulated Depreciation for:				
Software	-	1,348	-	1,348
Total Accumulated Depreciation	-	1,348	-	1,348
Net Intangible Assets	\$ -	\$ 92,012	\$ -	\$ 92,012

NOTE 4 ACCOUNTS PAYABLE

Accounts payable of \$94,741 represent expenditures for goods and services received or provided on or before June 30, 2020, but were not paid until after that date.

NOTE 5 PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

The Commission participates 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 benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at www.nmpera.org.

Funding Policy

Plan members are required to contribute 8.92% of their gross salary. The Commission is required to contribute 17.24% of the gross covered salary. The contribution requirements of plan members and the Commission are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Commission's contributions to PERA for the fiscal year ended June 30, 2020, was \$33,734, equal to the amount of the required contributions for the year.

**NEW MEXICO STATE ETHICS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 6 POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the 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.

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.

**NEW MEXICO STATE ETHICS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

**NOTE 6 POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

Funding Policy (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. 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, 2020, 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, 2020, 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, 2020, 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 Commission’s contributions to the RHCA for the year ended June 30, 2020 was \$3,914, which is equal the required contribution.

NOTE 7 COMPENSATED ABSENCES

The compensated absence balance in the amount of \$14,732 represents the estimated liability for employees’ accrued vacation and sick leave for which employees are entitled to be paid upon termination. These are expected to be paid from the General Fund.

The long-term liability for compensated absences for the year ended June 30, 2020 was as follows:

	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020	Due Within One Year
Compensated Absences Payable	\$ -	\$ 22,295	\$ (7,563)	\$ 14,732	\$ 14,732

**NEW MEXICO STATE ETHICS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 8 LEASE COMMITMENTS

The Commission has entered into operating lease agreements for a postage machine, copier, and office space. Total rental payments for operating leases made during the year ended June 30, 2020, was \$19,915.

Future payments are:

Year Ended June 30,	Lease Expense
2021	\$ 41,602
2022	41,789
2023	42,911
2024	34,750
2025	-
	\$ 161,052

NOTE 9 RISK MANAGEMENT

The Commission is covered by the public employee fidelity bond, insured through the state of New Mexico – General Services Department – Risk Management Division. The Risk Management Division (RMD) is responsible for the acquisition and administration of all insurance purchased by the state. Various statutes have been passed which allow the RMD to insure, self-insure, or use a combination of both in all areas of insurance.

The insurance programs apply to all state agencies as defined in the Tort Claims Act, RMD provides coverage in the following areas:

- Liability and civil rights protection for claims made by others against the state;
- Coverage to protect the state’s assets;
- Fringe benefits coverage for the state’s employees. However, universities provide their group health programs.

NOTE 10 INTERAGENCY TRANSFERS AND DUE TO STATE GENERAL FUND

The Commission received inter-agency operating transfers from the New Mexico Department of Finance and Administration (DFA) for general appropriations made by the New Mexico state legislature. Each of the transfers was posted to the Commission’s general fund account with New Mexico Department of Finance and Administration. The following are the transfers that were made:

**NEW MEXICO STATE ETHICS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 10 INTERAGENCY TRANSFERS AND DUE TO STATE GENERAL FUND (CONTINUED)

SHARE Fund	Purpose	Agency Name, Business Unit, and Fund	In	Out
20780	(1)	New Mexico State General Fund - 34101 - 85300	\$ 200,000	\$ -
20780	(2)	New Mexico Department of Finance and Administration - 34100 - 62000	500,000	-
20780	(3)	New Mexico State General Fund - 34101 - 85300	-	170,159
			<u>\$ 700,000</u>	<u>\$ 170,159</u>

- (1) State General Fund Appropriations
- (2) Laws of 2019, Chapter 271, Section 5, Item 39
- (3) Reversions to State General Fund

**NEW MEXICO STATE ETHICS COMMISSION
SCHEDULE OF JOINT POWERS AGREEMENTS
YEAR ENDED JUNE 30, 2020**

Participants	Administering Agency Responsible Party	Description	Date of Agreement	
			Beginning	Ending
SEC/SOS	SEC	To provide shared authority for enforcement of the Campaign Reporting Act	12/20/2019	Until Termination
SEC/SOS	SEC	To provide shared authority for enforcement of the Lobbyist Regulation Act	12/20/2019	Until Termination
SEC/SOS	SEC	To provide shared authority for enforcement of Financial Disclosure Act	12/20/2019	Until Termination
SEC/SOS	SEC	To provide shared authority for enforcement of Voter Action Act	12/20/2019	Until Termination
SEC/GSD	SEC	To provide shared authority to investigate, adjudicate, and enforce the provisions of the Procurement Code	12/11/2019	Until Termination

**NEW MEXICO STATE ETHICS COMMISSION
SCHEDULE OF JOINT POWERS AGREEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2020**

Participants	Total Amount	SEC Amount	Amount Expended as of 6/30/20	Audit Party	Fiscal Agent	Reporting Agency
SEC/SOS	\$ -	\$ -	\$ -	Both	Both	Both
SEC/SOS	-	-	-	Both	Both	Both
SEC/SOS	-	-	-	Both	Both	Both
SEC/SOS	-	-	-	Both	Both	Both
SEC/GSD	-	-	-	Both	Both	Both



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

Mr. Brian S. Colón, Esq., New Mexico State Auditor and
Executive Director
New Mexico State Ethics Commission
Albuquerque, New Mexico

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, the major general fund, and the budgetary comparison of the general fund of the New Mexico State Ethics Commission (the Commission), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 29, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission'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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 entity'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.

Mr. Brian S. Colón, Esq., New Mexico State Auditor and
Executive Director
New Mexico State Ethics Commission

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from 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*.

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.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
October 29, 2020

**NEW MEXICO STATE ETHICS COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2020**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

**NEW MEXICO STATE ETHICS COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2020**

Section II – Financial Statement Findings

None

Section III – Summary of Prior Audit Findings

None

**STATE OF NEW MEXICO
NEW MEXICO STATE ETHICS COMMISSION
EXIT CONFERENCE
JUNE 30, 2020**

An exit conference was held on October 28, 2020 to discuss the current report. Those individuals in attendance were as follows:

NEW MEXICO STATE ETHICS COMMISSION

Jeremy Farris	Executive Director
Wendy George	Chief Financial Officer

CLIFTONLARSONALLEN LLP

Matt Bone, CPA, CGMA, CGFM	Principal
Andres Gamez, CPA	Director

The financial statements were prepared by CliftonLarsonAllen LLP with assistance provided by the Commission's personnel. The Commission is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. The Commission has reviewed and approved the financial statements and notes to the financial statements.

CliftonLarsonAllen LLP would like to acknowledge the courtesy and assistance extended to us during the course of the audit.