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

**STATE OF NEW MEXICO  
PUBLIC REGULATION COMMISSION**

**June 30, 2011**

atkinson

PRECISE. PERSONAL. PROACTIVE.

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State of New Mexico  
Public Regulation Commission

**OFFICIAL ROSTER**

June 30, 2011

**COMMISSIONERS**

Jason A. Marks	Commissioner
Patrick H. Lyons	Chairman
Jerome D. Block **	Vice-Chairman
Theresa Becenti-Aguilar	Commissioner
Ben L. Hall	Commissioner

\*\*Resigned October 7, 2011

**ADMINISTRATIVE OFFICIALS**

Johnny Montoya	Chief of Staff
Matthew Lovato	Chief Financial Officer/ Acting Director, Administrative Services
Jim Williamson	Director, Consumer Relations
John Franchini	Superintendent of Insurance
Carol Rising	Director, Legal
Larry Lujan	Director, Transportation
Roy Stephenson	Director, Utilities
Stacy Starr-Garcia	Bureau Chief, Corporations



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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ALBUQUERQUE, NM 87125

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Public Regulation Commissioners  
State of New Mexico  
Public Regulation Commission  
and  
Mr. Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the budgetary comparisons for the General Fund and Major Special Revenue Funds, and the aggregate remaining fund information of the State of New Mexico Public Regulation Commission (Commission), as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. We have also audited the financial statements of each of the Commission's nonmajor governmental and fiduciary funds, including the budgetary comparisons of the nonmajor funds, presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note B1, the financial statements of the Commission are intended to present the financial position and changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2011, and the changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.



In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Commission, as of June 30, 2011, and the respective changes in financial position and the respective budgetary comparisons of the General Fund and Major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental and fiduciary fund of the Commission as of June 30, 2011, and the respective changes in the financial position and the respective budgetary comparisons for the nonmajor funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

On June 21, 2011, PRC self reported to the New Mexico Attorney General and subsequently to the State Auditor its discovery of excessive and possibly fraudulent gas card usage by Commissioner Jerome Block Jr. Jerome Block Jr. resigned as PRC Commissioner on October 7, 2011. The State Auditor investigated and reported on this activity identifying unreasonable charges to the State of New Mexico for Commissioner Block's term of \$8,842 and authorized a "special agreed upon procedure" engagement to investigate possible risk factors in PRC policies and procedures for periods prior to the current fiscal year. The special audit was in process at the date of the financial statement.

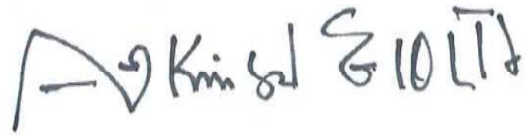
The Commission implemented Governmental Accounting Standards Board (GASB) Opinion No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions" in FY11. This standard affects governmental fund balance reporting and classifications as detailed in Notes B10 and P2.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 29, 2011, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 11 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, and the combining and individual fund financial statements and budgetary comparisons. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. The fiduciary combining schedule of changes in assets and liabilities – agency funds, schedule of cash accounts, joint powers agreements, and special appropriations listed as other supplementary information in the table of contents are presented for purposes of additional

analyses and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement as a whole.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", written in a cursive, stylized script.

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 29, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2011

The Public Regulation Commission's (Commission or PRC) discussion and analysis provides the reader of the financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2011. The financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments*, and related GASB statements, which established financial reporting requirements for state and local governments throughout the United States. The requirements were developed by GASB to make annual reports more comprehensive and easier to understand and use.

Since the Management's discussion and analysis (MD&A) is designed to focus on the current year activities, resulting changes and current facts, it should be read in conjunction with the Commission's financial statements.

### **The Basic Financial Statements**

In compliance with requirements of accounting principles generally accepted in the United States of America (GAAP) the Commission's basic financial statements include the:

- Government-wide financial statements;
- Fund financial statements;
- Budget comparison statements;
- Notes to the financial statements.

In accordance with 2.2.2 New Mexico Administrative Code NMAC Section 2.2.2.10A. (2)(d), the audit opinion also covers additional information consisting of:

- Combining financial statements;

The Management's Discussion and Analysis (MD&A) is included as required supplementary information (RSI).

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

The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances, in a corporate-like manner. These statements report information about the overall government without displaying individual funds or fund types. They distinguish between governmental activities and business-type activities. The Commission does not have any business-type activities.

The focus of the Statement of Net Assets (the "Unrestricted Net Assets") is designed to be similar to a bottom line for the Commission and its governmental activities. The statement combines and consolidates governmental funds' current financial resources (short-term available resources) with capital assets and long term liabilities.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

June 30, 2011

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

The Statement of Activities is focused on activities that are provided by the Commission's general and other revenues. This is intended to summarize and simplify the users' analysis of the cost of services.

The Governmental Activities section reflects the Commission's basic service, including Policy and Regulations and Public Safety.

### **Fund Financial Statements**

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on major funds, rather than fund types.

The governmental Major Fund presentation is presented on a sources and uses of liquid resource basis. This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the Financial Statement allows the demonstration of sources and uses and budgeting compliance associated therein.

The Fund Financial Statements also allow the government to address its Agency Funds. While these Funds represent trust responsibilities of government, these assets are held in a custodial purpose and do not represent discretionary assets of the government. These assets, therefore, are not presented as part of the Government-Wide Financial Statements.

### **Combining and Individual Fund Financial Statements**

Consistent with the Commission's financial reports in prior years, combining and individual fund financial statements are also included in the report. These statements are presented on the same basis as fund financial statements, but are not grouped by fund type.

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to gain a full understanding of the data provided in the government-wide financial statements. The notes to the financial statements can be found on pages 23 through 47 of this report.

State of New Mexico  
Public Regulation Commission

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

June 30, 2011

**Budgetary Comparisons**

In addition to MD&A, GASB 34 requires budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget to be presented. The budgetary comparison schedules present both the original and the final appropriated budgets for the reporting period as well as the actual inflows, outflows and balances, stated on the government's budgetary basis.

As required by the Office of the State Auditor under 2 NMAC 2.2, the Statements of Revenues and Expenditures-Budget and Actual are also presented for the general and major special revenue funds that are part of the basic financial statements. The budget comparison information for all other funds is included as supplemental information. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Commission's Net Assets**

<u>NET ASSETS</u>	<u>June 30, 2011</u>	<u>June 30, 2010 (As Restated)</u>	<u>Change</u>
<b>ASSETS</b>			
<i>Government activities</i>			
Current and other assets	\$ 78,518,079	\$ 67,884,159	\$ 10,633,920
Capital assets	2,822,346	3,053,413	(231,067)
Total assets	<u>\$ 81,340,425</u>	<u>\$ 70,937,572</u>	<u>\$ 10,402,853</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 20,883,972	\$ 4,598,310	\$ 16,285,662
Non-current liabilities	47,644,799	47,672,072	(27,273)
Total liabilities	<u>68,528,771</u>	<u>52,270,382</u>	<u>16,258,389</u>
<b>NET ASSETS</b>			
Invested in capital assets	2,822,346	3,053,413	(231,067)
Restricted for special projects	22,829,333	16,516,331	6,313,002
Unrestricted	(539,744)	(902,554)	362,810
Total net assets	<u>\$ 25,111,935</u>	<u>\$ 18,667,190</u>	<u>\$ 6,444,745</u>
Total liabilities and net assets	<u>\$ 81,340,425</u>	<u>\$ 70,937,572</u>	<u>\$ 10,402,853</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

June 30, 2011

**Discussion of Statement of Net Assets**

Net assets are derived by deducting total liabilities from total assets. Net assets increased by \$6,444,745.

Current assets consist mostly of investments with the State Treasurer of \$38,312,885; other investments of \$36,218,973; amounts due from external parties (agency funds) of \$2,873,345; grants receivable of \$947,069; and amounts due from other state agencies of \$145,607.

The Commission reports balances in three categories of net assets; (1) invested in capital assets; (2) restricted and (3) unrestricted. The invested in capital assets balance is positive but the unrestricted balance is negative due to compensated absences reported on the government-wide financial statements.

Restricted net assets increased due to increases in investments held with the State Treasurer reported by the Insurance Operations Fund.

**Capital Asset and Debt Administration**

The decrease in capital assets of \$231,068 is due to depreciation expense recorded in the current fiscal year, partially offset by new purchases of machinery and equipment of \$183,506.

**Liabilities**

Current liabilities of \$8,583,691 consists primarily of accounts payable \$715,475, i.e., money that the Commission is obligated to pay; accrued salaries and benefits payable \$324,367; due to external parties (agency funds) \$1,062,261; due to the State General Fund \$6,277,203; and other liabilities of \$174,020. The estimated current portion of patients' claims payable is \$11,425,080.

**Long-Term Debt**

At the end of the current fiscal year, the Commission had total long-term debt outstanding of \$35,344,518 of which consists of the long-term portion of patient's compensation claims payable.

Employees can receive compensation for a maximum of 240 hours upon severance.

State of New Mexico  
Public Regulation Commission

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

June 30, 2011

**Commission's Statement of Activities**

<b>STATEMENTS OF ACTIVITIES</b>	June 30, 2011	June 30, 2010 (As Restated)	Change
<i>Government activities</i>			
Operating grants and contributions	\$ 1,574,728	\$ 871,570	\$ 703,158
Investment income	4,307,534	4,367,967	(60,433)
Charges for services	22,649,019	23,995,320	(1,346,301)
General Fund appropriations	9,521,300	10,592,600	(1,071,300)
Other financing sources	6,318,265	2,367,615	3,950,650
 Total revenue	 44,370,846	 42,195,072	 2,175,774
 Program expenses	 28,646,650	 38,049,309	 (9,402,659)
Other financing uses	9,279,451	2,480,906	6,798,545
 Total expense	 37,926,101	 40,530,215	 (2,604,114)
 Change in net assets	 6,444,745	 1,664,857	 4,779,888
 Net assets, beginning of year, previously stated	 18,667,190	 16,783,304	 1,883,886
 Restatement-See Note P	 -	 219,029	 (219,029)
 Net assets, beginning of year, restated	 18,667,190	 17,002,333	 1,664,857
 Net assets, end of year	 <u>\$ 25,111,935</u>	 <u>\$ 18,667,190</u>	 <u>\$ 6,663,774</u>

For more detailed information see the Statement of Activities and the Statement of Net Assets.

**Discussion of Statement of Activities**

This statement shows the components that increased, in the aggregate, the Commission's net assets by \$6,444,745 during the year. In the government-wide financials, revenues from other financing sources increased \$3,950,650 due to a related increase in transfers into the General Fund from agency funds, specifically the Insurance Suspense Agency Fund and Pipeline Fees Agency Fund as compared to the prior year. The transfers served to reimburse the costs of insurance policy and public safety programs provided in the General Fund. The increase in revenue was offset by an increase in other financing uses of \$6,798,545 due to a higher amount of reversions required to be transferred to the State General Fund. Program expenses decreased \$9,402,659 primarily due to changes in estimates to the Patients Compensation Fund claim liability in the prior year, causing additional program expenses to be recorded in the prior year. Additionally, a decrease in appropriations of \$1,071,300 also led to a decrease in expenditures.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

June 30, 2011

**THE COMMISSION'S FUNDS**

**The Commission's Individual Governmental Funds**

As of year-end, the governmental funds, as presented on the balance sheet, reported a combined fund balance of \$69,934,388, for a net increase over the prior fiscal period of \$6,867,568. This increase is primarily in the Patients' Compensation Fund which increased by \$8,334,635 as a result of a decrease in expenditures. The Fire Protection Fund and Insurance Operations Fund both decreased by \$283,037 and \$1,261,762, respectively. The General Fund remained at zero.

The General Fund revenues increased \$921,603 as compared to the previous year due to an increase in federal grant revenues resulting from increases in corresponding reimbursable grant expenditures. Other financing sources decreased \$2,213,313 as a result of decreases in general fund appropriations from State Legislature which were partially offset by an increase in transfers from other funds. Expenditures also decreased \$1,471,267 as a result of a decrease in appropriations.

The Patients' Compensation Fund fee revenues decreased \$1,315,274 due to a decrease in annual surcharges levied and collected by healthcare providers. Expenditures decreased \$4,313,147 due to decreased claim expenditures in fiscal year 2011 in comparison with fiscal year 2010.

The Fire Protection Grant Fund's grants to other organizations increased in comparison to the prior year by \$403,754. In addition transfers into the Fire Protection Grant Fund from the Fire Protection Agency Fund increased by \$1,947,776.

The Insurance Operations Fund revenues increased by \$477,133 as compared to the previous year resulting from an increase in fees. The increase in revenues was partially offset by a decrease in other financing uses of \$2,950,223 due to a higher amount of reversions required to be transferred to the State General Fund.

**General Fund Budgetary Highlights**

In the General Fund the budgeted expenditures decreased from the prior fiscal year by \$262,833 due to a reduction in funding to the Commission. The decrease in expenditures was directed by the Legislature to sustain General Fund reductions due to the economic downturn in the state. The Commission has continued to manage its operations with a reduced budget yet sustaining all statutory requirements that are set upon this Commission. Actual expenditures were a favorable variance of \$3,664,292 as compared to the final budgeted amount.



**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

June 30, 2011

**Currently Known Facts**

The State of New Mexico implemented a new financial and human capital system beginning in fiscal year 2007. The new system was designed to increase operating and processing efficiencies while increasing control and oversight. The Commission continues to make strides with the new financial and human capital system to ensure effective communication and financial reporting accountability. In fiscal year 2009, the Commission brought the complete financial close and statement preparation in-house moving away from contracting with an outside firm. The Commission's ASD staff is now fully experienced and knowledgeable with the new accounting system which allows the Commission to be more apprised of any financial situation that may arise.

The Fire Protection Grant Fund was established by the laws of 2007, chapter 152, section 1 allowing balances in the Fire Protection Fund to be transferred to the Fire Protection Grant Fund for distribution. Annual amounts transferred to the Fire Protection Grant Fund increase by six and seven-tenths percent starting on June 30, 2007 for a fifteen year period until it reaches one hundred percent. The one hundred percent distribution will continue each subsequent year.

**Requests for Information**

This financial report is designed to provide citizens, taxpayers, customers, legislators, and investors and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. If you have questions about this report or need additional information, contact the Administrative Services Division Director in room 536 of the PERA Building, 1120 Paseo de Peralta, P.O. Box 1269, Santa Fe, New Mexico 87502-1269 or visit the Commission website at [www.nmprc.gov](http://www.nmprc.gov).

State of New Mexico  
Public Regulation Commission

**STATEMENT OF NET ASSETS**

June 30, 2011

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Investments, state treasurer investment pool	\$ 38,312,885
Investments	36,218,973
Due from external parties-agency funds	2,893,545
Due from other agencies	145,607
Due from Federal government	947,069
Total current assets	<u>78,518,079</u>
Capital assets, net	<u>2,822,346</u>
Total assets	<u>81,340,425</u>
<b>LIABILITIES</b>	
Accounts payable	715,475
Accrued payroll	324,367
Investments, state treasurer investment pool-overdraft	30,365
Other liabilities	174,020
Due to external parties-agency funds	1,062,261
Due to State General Fund	6,277,203
Due in one year	12,300,281
Total current liabilities	<u>20,883,972</u>
Non-current liabilities	
Due in more than one year	<u>35,344,518</u>
Total liabilities	<u>56,228,490</u>
<b>NET ASSETS</b>	
Investment in capital assets	2,822,346
Restricted for special purposes	22,829,333
Unrestricted deficit	<u>(539,744)</u>
Total net assets	<u>\$ 25,111,935</u>

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

State of New Mexico  
Public Regulation Commission

**STATEMENT OF ACTIVITIES**

Year ended June 30, 2011

	Policy and Regulation	Public Safety	Agency Support	Governmental Activities
PROGRAM EXPENSES	\$ 20,384,808	\$ 5,292,699	\$ 2,969,143	\$ 28,646,650
PROGRAM REVENUES				
Operating grants and contributions	164,212	1,410,516	-	1,574,728
Charges for services	22,264,641	384,378	-	22,649,019
Net program revenue (expense)	\$ 2,044,045	\$ (3,497,805)	\$ (2,969,143)	(4,422,903)
GENERAL REVENUES				
Transfers - General Fund appropriations				9,521,300
Transfers - State General Fund reversions - 2011 FY				(6,276,490)
Grants to other organizations				(3,002,961)
Investment income				4,307,534
Transfers in from external parties-agency funds				6,318,265
Total general revenues				10,867,648
Change in net assets				6,444,745
Net assets, beginning of year, previously stated				18,448,161
Restatements-See Note P				219,029
Net assets, beginning of year, restated				18,667,190
Net assets, end of year				\$ 25,111,935

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

State of New Mexico  
Public Regulation Commission

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

June 30, 2011

	General Fund- 55000	Patient's Compensation Fund- 23500	Fire Protection Grant Fund- 56900	Insurance Operations Fund- 03900	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
<b>Current Assets</b>						
Investments, state treasurer investment pool	\$ 3,100,603	\$ 23,843,395	\$ 273,577	\$ 7,575,675	\$ 3,519,635	\$ 38,312,885
Investments	-	36,218,973	-	-	-	36,218,973
Receivables	-	-	-	-	-	-
Due from other funds	-	-	-	-	780,123	780,123
Due from external parties-agency funds	-	-	2,720,726	172,819	-	2,893,545
Due from other agencies	143,463	2,120	24	-	-	145,607
Due from federal government	909,762	-	-	-	37,307	947,069
<b>Total assets</b>	<b>\$ 4,153,828</b>	<b>\$ 60,064,488</b>	<b>\$ 2,994,327</b>	<b>\$ 7,748,494</b>	<b>\$ 4,337,065</b>	<b>\$ 79,298,202</b>
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts payable	\$ 653,657	\$ 60,832	\$ -	\$ -	\$ 986	\$ 715,475
Accrued payroll	318,411	-	-	-	5,956	324,367
Investments, state treasurer investment pool-overdraft	-	-	-	-	30,365	30,365
Other liabilities	4,647	-	169,373	-	-	174,020
Due to other funds	780,123	-	-	-	-	780,123
Due to external parties-agency funds	1,062,261	-	-	-	-	1,062,261
Due to State General Fund	1,334,729	-	-	4,942,474	-	6,277,203
<b>Total liabilities</b>	<b>4,153,828</b>	<b>60,832</b>	<b>169,373</b>	<b>4,942,474</b>	<b>37,307</b>	<b>9,363,814</b>
<b>FUND BALANCES</b>						
<b>Restricted:</b>						
Special Revenue Funds	-	60,003,656	2,824,954	2,806,020	3,964,221	69,598,851
<b>Committed:</b>						
Reproduction Fund	-	-	-	-	335,537	335,537
<b>Total fund balances</b>	<b>-</b>	<b>60,003,656</b>	<b>2,824,954</b>	<b>2,806,020</b>	<b>4,299,758</b>	<b>69,934,388</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,153,828</b>	<b>\$ 60,064,488</b>	<b>\$ 2,994,327</b>	<b>\$ 7,748,494</b>	<b>\$ 4,337,065</b>	<b>\$ 79,298,202</b>

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

State of New Mexico  
Public Regulation Commission

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

For the year ended June 30, 2011

Fund balance - total governmental funds		\$ 69,934,388
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Governmental capital assets	\$ 10,009,281	
Accumulated depreciation	<u>(7,186,935)</u>	
		2,822,346
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:		
Patients' Compensation Fund claims liability		(46,769,518)
Compensated absences		<u>(875,281)</u>
Net assets of governmental activities		<u>\$ 25,111,935</u>

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

State of New Mexico  
Public Regulation Commission

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

June 30, 2011

	General Fund - 55000	Patients' Compensation Fund- 23500	Fire Protection Grant Fund- 56900	Insurance Operations Fund- 03900	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Insurance tax	\$ -	\$ -	\$ -	\$ -	\$ 775,845	\$ 775,845
Other fees	384,378	11,417,849	-	8,947,112	1,123,835	21,873,174
Bond proceeds	29,305	-	-	-	-	29,305
Investment income	-	4,303,809	3,725	-	-	4,307,534
Grant funds	1,381,211	-	-	-	164,212	1,545,423
	<u>1,794,894</u>	<u>15,721,658</u>	<u>3,725</u>	<u>8,947,112</u>	<u>2,063,892</u>	<u>28,531,281</u>
Total revenues	1,794,894	15,721,658	3,725	8,947,112	2,063,892	28,531,281
<b>EXPENDITURES</b>						
Current:						
Personal services	12,424,027	9,323	-	-	157,574	12,590,924
Employee benefits	4,987,991	4,789	-	-	-	4,992,780
In-state travel	151,180	-	4,527	-	-	155,707
Maintenance and repairs	134,027	100	-	-	-	134,127
Supplies	594,905	1,590	-	-	-	596,495
Contractual services	833,205	193,410	-	-	-	1,026,615
Operating costs	1,915,888	6,766,611	-	-	6,638	8,689,137
Out-of-state travel	73,565	-	-	-	-	73,565
Capital outlay	183,506	-	-	-	-	183,506
	<u>21,298,294</u>	<u>6,975,823</u>	<u>4,527</u>	<u>-</u>	<u>164,212</u>	<u>28,442,856</u>
Total expenditures	21,298,294	6,975,823	4,527	-	164,212	28,442,856
(Deficiency) excess of revenues over expenditures	(19,503,400)	8,745,835	(802)	8,947,112	1,899,680	88,425
<b>OTHER FINANCING SOURCES (USES)</b>						
General Fund appropriations	9,521,300	-	-	-	-	9,521,300
Reversions to the State General Fund	(1,334,016)	-	-	(4,942,474)	-	(6,276,490)
Grants to other organizations	-	-	(3,002,961)	-	-	(3,002,961)
Operating transfers in	13,158,500	-	2,720,726	-	780,123	16,659,349
Operating transfers out	(1,842,384)	(411,200)	-	(5,266,400)	(2,821,100)	(10,341,084)
	<u>19,503,400</u>	<u>(411,200)</u>	<u>(282,235)</u>	<u>(10,208,874)</u>	<u>(2,040,977)</u>	<u>6,560,114</u>
Total other financing sources (uses)	19,503,400	(411,200)	(282,235)	(10,208,874)	(2,040,977)	6,560,114
Net change in fund balances	-	8,334,635	(283,037)	(1,261,762)	(141,297)	6,648,539
FUND BALANCES - beginning of year, previously stated	25,721	51,669,021	3,107,991	4,067,782	4,196,305	63,066,820
Restatements See Note P	(25,721)	-	-	-	244,750	219,029
FUND BALANCES - beginning of year, restated	-	51,669,021	3,107,991	4,067,782	4,441,055	63,285,849
FUND BALANCES - end of year	<u>\$ -</u>	<u>\$ 60,003,656</u>	<u>\$ 2,824,954</u>	<u>\$ 2,806,020</u>	<u>\$ 4,299,758</u>	<u>\$ 69,934,388</u>

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

State of New Mexico  
Public Regulation Commission

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS**

For the year ended June 30, 2011

Net change in fund balances - total governmental funds	\$ 6,648,539
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Capital outlay	183,506
Depreciation expense	<u>(414,574)</u>
Change in capital assets	(231,068)
Change in compensated absences	27,273
Rounding	<u>1</u>
Change in net assets of governmental activities (Statement of Activities)	<u>\$ 6,444,745</u>

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

State of New Mexico  
Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
GENERAL FUND (SHARE 55000)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
General fund appropriation	\$ 9,840,700	\$ 9,521,300	\$ 9,521,300	\$ -
Reversions to the state general fund	-	-	(1,334,016)	(1,334,016)
Internal reversions within the Commission	-	-	(1,842,385)	(1,842,385)
Other financing sources	13,302,900	13,394,900	13,158,500	(236,400)
Federal funds	573,500	2,046,386	1,381,211	(665,175)
Bond proceeds	-	-	29,305	29,305
Other fees	-	-	384,379	384,379
 Total budgeted revenues	 23,717,100	 24,962,586	 21,298,294	 (3,664,292)
Expenditures:				
Personnel services	18,915,500	18,898,650	17,412,018	1,486,632
Contractual services	991,400	1,739,041	833,205	905,836
Operating costs	3,810,200	4,324,895	3,053,071	1,271,824
 Total budgeted expenditures	 23,717,100	 24,962,586	 21,298,294	 3,664,292
 Excess (deficiency) of revenues over expenditures	 \$ -	 \$ -	 \$ -	 \$ -

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



State of New Mexico  
Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
PATIENTS' COMPENSATION FUND (SHARE 23500)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Doctor's surcharge	\$ -	\$ -	\$ -	\$ -
Investment Income	-	-	4,303,809	4,303,809
Other fees	-	-	11,417,849	11,417,849
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>15,721,658</b>	<b>15,721,658</b>
Expenditures:				
Personnel services	62,900	62,900	14,112	48,788
Contractual services	435,000	435,000	193,410	241,590
Operating costs	10,050,000	10,050,000	6,768,301	3,281,699
Other financing uses	411,200	411,200	411,200	-
<b>Total expenditures</b>	<b>10,959,100</b>	<b>10,959,100</b>	<b>7,387,023</b>	<b>3,572,077</b>
Excess (deficiency) of revenues over expenditures (prior year cash balance required to balance budget)	(10,959,100)	(10,959,100)	<u>\$ 8,334,635</u>	<u>\$ 12,149,581</u>
Cash balance carryforward	10,959,100	10,959,100		
<b>Total</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>		

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

State of New Mexico  
Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
FIRE PROTECTION GRANT FUND (SHARE 56900)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other financing sources	\$ -	\$ -	\$ 2,720,726	\$ 2,720,726
Investment Income	-	-	3,725	3,725
Total revenues	-	-	2,724,451	2,724,451
Expenditures:				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Grants to other organizations	3,009,000	4,567,800	3,002,961	1,564,839
Other	-	-	4,527	(4,527)
Total expenditures	3,009,000	4,567,800	3,007,488	1,560,312
Excess (deficiency) of revenues over expenditures	(3,009,000)	(4,567,800)	<u>\$ (283,037)</u>	<u>\$ 1,164,139</u>
Cash balance carryforward	<u>3,009,000</u>	<u>4,567,800</u>		
Total	<u>\$ -</u>	<u>\$ -</u>		

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

State of New Mexico  
Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
INSURANCE OPERATIONS FUND (SHARE 03900)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Reversions to the state general fund	\$ -	\$ -	\$ (4,942,474)	\$ (4,942,474)
Other fees	-	-	8,947,112	(8,947,112)
Other financing sources	-	-	-	-
Total revenues	-	-	4,004,638	(13,889,586)
Expenditures:				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Other financing uses	5,266,400	5,266,400	5,266,400	-
Total expenditures	5,266,400	5,266,400	5,266,400	-
Excess (deficiency) of revenues over expenditures	(5,266,400)	(5,266,400)	\$ (1,261,762)	\$ (13,889,586)
Cash balance carryforward	5,266,400	5,266,400		
Total	\$ -	\$ -		

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

State of New Mexico  
Public Regulation Commission

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS**

June 30, 2011

	<u>Agency Funds</u>
<b>ASSETS</b>	
Investments, state treasurer investment pool	\$ 68,669,472
Cash in banks - ancillary receivership	1,265,555
Securities deposits	431,764,573
Due from external parties	1,062,261
Due from other funds	<u>601,894</u>
 Total assets	 <u><u>\$ 503,363,755</u></u>
<b>LIABILITIES</b>	
Due to State General Fund	\$ 18,650,961
Due to other funds	601,894
Due to external parties	2,893,544
Due to other state agencies	101,366
Undistributed receipts	4,915,100
Accounts payable	43,170,762
Securities held in trust	<u>433,030,128</u>
 Total liabilities	 <u><u>\$ 503,363,755</u></u>

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

State of New Mexico  
Public Regulation Commission

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**NOTE A – HISTORY AND FUNCTION**

The State of New Mexico Public Regulation Commission (Commission), created by Article XI of the State Constitution, is a five member commission whose members are elected from districts provided by law for staggered four-year terms.

The Commission has the responsibility for chartering and regulating business corporations in such a manner as the Legislature provides. The Commission has responsibility for regulating public utilities, including electric, natural gas and water companies; transportation companies, including common and contract carriers; transmission and pipeline companies, including telephone, telegraph and information transmission companies; insurance companies and others engaged in risk assumption; and other public service companies in such a manner as the Legislature provides.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body of establishing governmental accounting and financial reporting principles. The most significant of the Commission's accounting policies are described below:

1. Reporting Entity

GASB 14 defines the financial reporting entity as consisting of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government".

A primary government is any state government or general purpose local government, consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The Commission, therefore, is part of the primary government of the State of New Mexico, and its financial data should be included with the financial data of the State.

Included within the Commission for this purpose are the following: All of the programs that are administered and/or controlled by the Commission have been included. The commission has no component units.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

2. Basic Financial Statements

The basic financial statements include both government-wide (based on the Commission as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. The Commission only has governmental activities. In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis and are reflected on the full accrual, economic resource basis, which incorporates long term assets, and receivable as well as long-term debt and obligations and excludes internal activity.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation expense on capital assets) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function which consists of grants and fees.

The Commission has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Commission has elected to not apply FASB pronouncements issued after the applicable date.

The net cost by function is normally covered by general revenue. Historically, the previous model did not summarize or present net cost by function or activity. The Commission does not employ indirect cost allocation in the financial statements.

As to fund financial statements, emphasis is on the major funds of the governmental category. Nonmajor funds are summarized into a single column. The Commission's major funds are the General Fund, Patients' Compensation Fund, Fire Protection Grant Fund, and Insurance Operations Fund.

The governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the Commission's actual experience conforms with the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

2. Basic Financial Statements – Continued

The Commission's fiduciary funds are agency funds and are presented in the fund financial statements in total. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The financial transactions of the Commission are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The following fund types are used by the Commission:

Governmental Funds

*General Fund.* The General Fund is the general operating fund of the Commission. It is used to account for all financial resources except those required to be accounted for in another fund.

*Special Revenue Funds.* Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

*Patients' Compensation Fund.* A major special revenue fund to account for funds accumulated for payment of claims for bodily injury or death due to malpractice by a health care provider insured under the Medical Malpractice Act. This fund was created by Section 41-5-1 through 42-528, NMSA 1978 "Medical Malpractice Act". The purpose of the act is to promote the health and welfare of the people of New Mexico by making available professional liability insurance for health care providers in New Mexico. (SHARE Fund #23500).

*Insurance Operations Fund.* A major special revenue fund to account for the collection of fees, licenses, penalties, and taxes. This fund was created by Section 59A-6-5, NMSA 1978. The legislature shall annually appropriate from the fund to the division those amounts necessary for the division to carry out its responsibilities pursuant to the Insurance Code and other laws. Any balance in the fund at the end of a fiscal year greater than one-half of that fiscal year's appropriation shall revert to the General Fund. (SHARE Fund # 03900).

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

2. Basic Financial Statements – Continued

*Fire Protection Grant Fund.* To account for the collection of transfers, appropriations, gifts, grants, donations, and bequests to the Fire Protection Grant Fund. Money in the fund is appropriated to the Fire Protection Grant Council for the purpose of making distributions approved by the council for the critical needs of municipal and county fire districts was created by and is not reverting per Section 59A-53-18 NMSA 1978. (SHARE Fund # 43000-56900)

Fiduciary Funds Types

*Agency Funds.* Agency Funds are used to account for assets held by the Commission as an agent for individuals, private organizations, other governments, and/or other funds. The Commission only has agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

3. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus that applies.

The Government-wide Financial Statements and the Fiduciary Financial Statements are presented on an accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on a modified accrual basis. Under the accrual method of accounting revenues are recognized when earned and expenditures are recognized when incurred.

All governmental funds utilize the modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the current fiscal period; available meaning collectible within the current period or soon enough thereafter (60 days) to be used to pay liabilities of the current period.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Contributions and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

3. Basis of Accounting – Continued

Program revenues consist of grant and contribution revenues consist of federal grants. Charges for services consist primarily of fees charged to regulated entities.

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are accrued as current liabilities and non-current liabilities. Expenditures charged to federal programs are recorded utilizing the cost principles described by the various funding sources.

In applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

4. Budgetary Accounting

The State Legislature makes annual appropriations to the Commission, which lapse at fiscal year end. Legal compliance is monitored through the establishment of a budget (modified accrual-basis) and a financial control system, which permits a budget to actual expenditure comparison. Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitations as specified in the General Appropriations Act. The budget amounts shown in the financial statements are the final authorized amounts as legally revised during the year.

The budget is adopted on a modified accrual basis of accounting (General Appropriations Act, Laws of 2006, Chapter 109, Section 3 Subsections O and N) except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978) that must be paid out of next year’s budget. A reconciliation of budgetary basis to GAAP basis will be necessary if any accounts payable at the end of the fiscal year are not paid by the statutory deadline. The Commission has not included such reconciliation for fiscal year 2011 as all payables were paid by the statutory deadline.

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

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

4. Budgetary Accounting – Continued

No later than September 1<sup>st</sup> of each year, the Commission submits to the State Budget Division (SBD) of the New Mexico Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July 1<sup>st</sup>. Copies are also sent to the Legislative Finance Committee (LFC). The report submitted by the Commission also details revenues and expenditures or expenses for the preceding year. The budget for the General Administrative Fund 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 (Section 6-10-4 NMSA 1978) that must be paid out of the next year's budget.

The appropriation request includes proposed expenditures and the means of financing them. It is reviewed by the SBD and additional information is obtained, if needed. Agency budgets are consolidated, with revisions, and submitted as a tentative budget to the Governor of the State. The Governor's approved appropriation request is then submitted to the Legislature as the recommended appropriation request for the Commission.

Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of these hearings is incorporated in the General Appropriations Act.

The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit.

The Commission submits, no later than May 1<sup>st</sup> to DFA an annual operating budget by category and line item based upon the appropriations made by the Legislature. The SBD reviews and approves the operating budget, which becomes effective on July 1st. All subsequent budget adjustments must be approved by the Director of the SBD and the Legislative Finance Committee. The budget for the current year was adjusted in a legal manner.

Legal budget control for expenditures is by category of appropriation program level. All of the Commission's governmental funds were budgeted. Agency funds are not budgeted.

Appropriations of the Commission's General Fund lapse at the end of the fiscal year.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

4. Budgetary Accounting – Continued

The Commission's General Fund, Fire Protection Grant Fund, Pipeline Fees Fund, Franchise Tax Fund, Corporation Fees Fund, Fire Protection Fund, Special Corporations Fee Fund, Insurance Operations Fund, and Insurance Suspense Fund wholly or partially revert to the State General Fund; the other governmental and fiduciary funds are non-reverting funds.

5. Cash and Cash Equivalents

*Cash and Cash Equivalents.* Interest in the pooled cash on deposit with the State Treasurer's Office (STO) and Ancillary Receivership Accounts on deposit with area banks, which are held in trust for the payment of claims for those insurance companies, which are in receivership are considered cash and cash equivalents.

6. Investments

*Security Investments Held in Trust.* Investments recorded in the Trust Funds with Superintendent of Insurance are security deposits of insurance companies, which are required by statute. The securities are recorded at fair market value.

Investments in the Patients' Compensation Fund are held with the State Investment Council. The Investment Council operates in accordance with appropriate State laws and regulations. The reported value of the pooled shares is the same as the fair value of the pooled shares.

7. Receivables

Interest on investments is recorded as revenue in the year the interest is earned. No allowance for doubtful accounts has been recorded as management estimates that all amounts are collectible.

8. Interfund Receivables and Payables

Short-term amounts owed between funds are classified as "Due to/from other funds."

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

9. Capital Assets

Property, plant and equipment 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, software is capitalized with the related equipment. Contributed assets are recorded at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives with no salvage value.

	<u>Years</u>
Building improvements	50
Machinery and equipment	5-20
Land improvements	15-20
Buildings	25-45

10. Fund Balances

In the governmental fund financial statements the Commission classifies fund balances into spendable and non-spendable classifications. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact until expended for its restricted purpose. The Commission's has no non-spendable fund balances as of June 30, 2011

The spendable classifications are detailed below:

***Restricted Fund Balances***

In the governmental fund financial statements *restrictions* of fund balance are reported when constraints placed on the use of resources are either: (1) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Based on the criteria above the Commission reports restricted funds totaling \$69,598,851 in restricted funds as of June 30, 2011.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

10. Fund Balances – Continued

***Committed Fund Balances***

In the governmental fund financial statements *committed* fund balances are reported when amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Both Legislative and Executive branches through formal action). The Commission had *committed* fund balances in the Reproduction Fund (SHARE 47700) totaling \$335,537 as of June 30, 2011.

***Assigned Fund Balances***

In the governmental fund financial statements *assigned* fund balances are reported when amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The Commission does not have the authority to assign fund balance for a specific purpose. The Commission has no *assigned* fund balances as of June 30, 2011.

***Unassigned Fund Balances***

In the governmental fund financial statements *unassigned* fund balances are reported to reflect residual fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The Commission has no *unassigned* fund balances as of June 30, 2011.

Generally, the Commission would first apply committed resources when an expense is incurred for purposes for which both committed, assigned, or unassigned fund balances are available.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

11. Net Assets

The government-wide fund financial statements utilize a net asset presentation. Net assets are categorized as investment in capital assets, restricted and unrestricted.

**Investment in Capital Assets** – is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The Commission did not have any related debt during the year ended June 30, 2011.

**Unrestricted Deficit** – represents the deficit of total assets over total liabilities and net assets invested in capital assets at June 30, 2011.

**Restricted Net Assets** – net assets should be reported as restricted when constraints placed on net asset use are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Enabling legislation must be legally enforceable. Legal enforceability means that a government can be compelled by an external party - such as citizens, public interest groups or the judiciary – to use resources only for the purposes specified by the legislation.

The amount of net assets restricted by enabling legislation is \$22,829,333 at June 30, 2011.

The Commission allocates expenses to restricted or unrestricted resources based on the budgeted source of funds, which generally means restricted resources have been spent first.

12. Compensated Absences

Vested or accumulated vacation leave and vested sick leave are reported in the entity-wide financial statements, since they are not expected to be liquidated with expendable available financial resources. No current expenditures are reported in the General Fund financial statements for these amounts.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

13. Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a liability of the General Fund. The remaining portion of such obligations is reported in the entity-wide financial statements.

14. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**NOTE C – CASH AND INVESTMENTS**

Included in cash and cash equivalent is \$38,312,885 of funds that are held in the State Treasurer's Investment Pool. Collateral requirements for cash and cash equivalents held by the State Treasurer's Office are provided in their separately issued audit report. A copy of this audit report may be obtained by contacting the State Treasurer's Office at 2019 Galisteo Street, Building K, Santa Fe, New Mexico 87504-0608.

*Custodial Credit Risk – Deposits.* The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2011, the Commission's cash and cash equivalent deposits were not exposed to custodial credit risk.

The following is a summary of the Commission's interest in the State Treasurer General Fund Investment Pool:

State of New Mexico  
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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE C – CASH AND INVESTMENTS – CONTINUED**

	Book Balance	Treasurer Balance
General Fund		
Operating Account	\$ 3,100,603	\$ 3,100,603
Special Revenue Funds		
Patients Compensation Fund	23,843,395	23,843,395
Insurance Operations Fund	7,575,675	7,575,675
Fire Protection Grant Fund	273,577	273,577
Firefighter's Use Fund	851,145	851,145
Insurance Examination Fund	20,000	20,000
Insurance Licensing Continuing Ed Fund	731,458	731,458
Insurance Fraud Fund	81,367	81,367
Fire Safe Cigarette and Fire Protection Fund	292,500	292,500
Reproduction Fund	335,537	335,537
Title Insurance Maintenance Fund	40,453	40,453
ARRA Renewable Energy	-	-
Pipeline Safety Fund	1,167,175	1,167,175
Total Special Revenue Funds	35,212,282	35,212,282
Agency Funds		
Fire Fighter Survivor Fund	50,000	50,000
Fire Protection Fund	67,737,891	67,737,891
Motor Transportation	16,046	16,046
Corporation Fees Fund	31,930	31,930
Trust Funds with Superintendent of Insurance	-	-
Franchise Tax Fund	400	400
Utility Fees Fund	-	-
Pipeline Fees Fund	3,802	3,802
Insurance Suspense Fund	829,403	829,403
Qwest Performance Assurance	-	-
Total Agency Funds	68,669,472	68,669,472
Total Investments, State Treasurer	\$ 106,982,357	\$ 106,982,357



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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE C – CASH AND INVESTMENTS – CONTINUED**

*Cash in Banks -Ancillary Receivership.* The following is a listing of the Commission's Ancillary Receivership cash balances on deposit at local financial institutions. The amounts are reported in Trust funds with the Superintendent of Insurance Agency Fund (SHARE 41190). These balances are grouped by depository financial institutions as of June 30, 2011:

Century Bank of Santa Fe	\$ 627,102
First National Bank of Santa Fe	213,267
Community Bank of Santa Fe	17,614
Valley National Bank of Espanola	<u>407,572</u>
	<u>\$ 1,265,555</u>

There were no reconciling items on these bank accounts.

The Commission has entered into custodial agreements with the above financial institutions and the New Mexico State Treasurer. According to this agreement, the State Treasurer is responsible for approving all changes in the pledged collateral, monitoring the collateral requirements, and ensuring that all collateral meets the requirements of state law. As of June 30, 2011, the State Treasurer reported that the cash accounts were adequately collateralized in accordance with state statutes.

*Deposits Held in Trust.* Section 59A-10-4, NMSA 1978 requires insurance companies to deposit with the Superintendent of Insurance, certain securities to be held in trust for the benefit of insurance company policy holders and creditors. If an insurance company is placed in receivership, the Superintendent of Insurance has the authority to seize those securities which are held in trust for payment of claims made by policyholders and creditors.

Security deposits recorded in the Trust Funds with the Superintendent of Insurance amounting to \$431,764,573 are from insurance companies which are required by statute. The deposits consist of federal government securities and are recorded at fair value. While these assets are held in trust, the type of investment income and other investment decisions are controlled by the insurance companies. The amounts are reported in Trust funds with the Superintendent of Insurance Agency Fund (SHARE 41190).

*Pooled Investments.* The Commission has voluntarily entered into an agreement with the State Investment Council pursuant to Section 6-8-7.G, NMSA 1978 to participate in the investment pool. The Pool is not registered with the SEC and is managed by the State Investment Council. The investments are valued at fair market value based on quoted market prices at the valuation date. The reported value of the pooled shares is the same as the fair value of the pooled shares.

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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE C – CASH AND INVESTMENTS – CONTINUED**

The value of the investments maintained at the State Investment Council External Pooled Investment Funds are as follows at June 30, 2011:

	Market Value
Core Bond Fund	\$ 23,498,336
Non US Developed	1,118,375
Emerging Markets	795,354
Large Cap ETF	5,830,246
S&P Index ETF	2,296,319
SMID ETF	2,680,335
Large Cap Active Fund	8
	<u>\$ 36,218,973</u>

*Interest Rate Risk.* The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Concentration of Credit Risk.* The Commission places no limit on the amount the Commission may invest in any one issuer.

Please see the financial statements of the State Investment Council for a further discussion of the risks of the pooled investments. Their audit report may be obtained by contacting the State Investment Council at 41 Plaza La Preza #A Santa Fe, New Mexico 87507.

**NOTE D – DUE FROM AND DUE TO OTHER FUNDS**

Due from and due to other funds represent interfund receivables and payables arising from interdepartmental transfers primarily due to statutory requirements for transferring funds collected by one fund and expended by another. These are routine transactions that occur monthly or annually. These amounts have been eliminated on the government-wide statements. Amounts reported as due to and from external parties represents internal balance between governmental funds and agency funds. Agency funds are excluded from governmental funds and governmental-wide financial statements.

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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE D – DUE FROM AND DUE TO OTHER FUNDS – CONTINUED**

	Due to Other Funds		
	550000	508000	Total
	General Fund	Insurance Suspense Agency Fund	
<u>Due From Other Funds</u>			
375000 Insurance Fraud Fund	\$ 76,890	\$ -	\$ 76,890
377000 Pipeline Safety	629,016	-	629,016
860000 Title Insurance Maintenance Fund	74,217	-	74,217
578000 Fire Protection Agency Fund	-	601,894	601,894
	<hr/>	<hr/>	<hr/>
Total	\$ 780,123	\$ 601,894	\$ 1,382,017
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	Due to External Parties			
	550000	508000	578000	Total
	General Fund	Insurance Suspense Agency Fund	Protection Agency Fund	
<u>Due From External Parties</u>				
039000 Insurance Operation Fund	\$ -	\$ 172,819	\$ -	\$ 172,819
578000 Fire Protection Agency Fund	1,062,261	-	-	1,062,261
569000 Fire Protection Fund	-	-	2,720,726	2,720,726
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 1,062,261	\$ 172,819	\$ 2,720,726	\$ 3,955,806
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE E – CAPITAL ASSETS**

The capital asset activity for the year ended June 30, 2011 is as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Governmental Activities				
Depreciable Assets				
Land improvements	\$ 947,900	\$ -	\$ -	\$ 947,900
Buildings	2,318,764	-	-	2,318,764
Machinery and equipment	6,472,636	183,506	(54,725)	6,601,417
Building improvements	141,200	-	-	141,200
Total at historical cost	9,880,500	183,506	(54,725)	10,009,281
Accumulated depreciation				
Land improvements	942,808	815	-	943,623
Buildings	897,758	44,234	-	941,992
Machinery and equipment	4,920,156	366,701	(54,725)	5,232,132
Construction in Progress	-	-	-	-
Building improvements	66,364	2,824	-	69,188
Total accumulated depreciation	6,827,086	414,574	(54,725)	7,186,935
Capital assets, net	<u>\$ 3,053,414</u>	<u>\$ (231,068)</u>	<u>\$ -</u>	<u>\$ 2,822,346</u>

Depreciation expense for the current year was \$414,574 and was related to the Public Safety Program.

**NOTE F – NON-CURRENT LIABILITIES**

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011	Payable Within 1 Year
Annual leave	\$ 889,143	\$ 919,166	\$ (948,208)	\$ 860,101	\$ 860,101
Sick leave	13,411	9,874	(8,105)	15,180	15,180
Patients' Compensation Fund claims payable	46,769,518	6,760,545	(6,760,545)	46,769,518	11,425,000
Total non-current liabilities	<u>\$ 47,672,072</u>	<u>\$ 7,689,585</u>	<u>\$ (7,716,858)</u>	<u>\$ 47,644,799</u>	<u>\$ 12,300,281</u>

There were no changes in estimate of the Patient's Compensation Fund claim payable in fiscal year 2011. An actuarial study will be performed in spring 2012.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE F – NON-CURRENT LIABILITIES – CONTINUED**

The Commission uses overall claims data to prepare the estimate; of claims payable there are significant actuarial assumptions used in estimating the liability, including the rate of return on investment and the number and cost of claims, among others. The Commission performs an actuarial analysis on the fund every two years. Differences in any of these assumptions and actual results may significantly change the liability. Claim liabilities are paid out of the Patients' Compensation Fund.

The Commission estimates that all compensated absences will be paid within one year. Substantially all of the compensated absence balances have been paid by the General Fund in prior years. The amount of compensated absences is calculated by multiplying the vested hours by the pay rate at year end plus applicable payroll taxes.

The Commission's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits.

Qualified employees accumulate maximum annual leave as follows:

<u>Years of Service</u>	<u>Hours Earned Per Pay Period</u>	<u>Days of Maximum Accrual</u>
Up to 3 years	3.08	30
Over 3-7 years	3.69	30
Over 7-11 years	4.61	30
Over 11-15 years	5.54	30
Over 15 years	6.15	30

The maximum accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is lost. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to the above maximums.

*Accrued Sick Leave.* Employees who have over 600 hours of accumulated sick leave can receive payment for the hours over 600 up to 120 hours, on July 1 and January 1 of each year. However, the sick leave will be paid at 50% of the employee's regular hourly wage.

At retirement, employees may receive 50% payment for up to 400 hours for the hours over 600 of accumulated sick leave. Therefore, the only sick leave which has been accrued represents the hours earned at June 30, 2010, over 600. Expenditures for accumulated sick pay for hours under 600 will be recognized as employees take such absences.

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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE G – DUE TO AND FROM OTHER STATE AGENCIES**

The following are short-term amounts owed between other state agencies and are classified as due to other state agencies:

	<u>Agency</u>	
<u>Due from Agency</u>		
<u>General Fund (55000)</u>		
Department of Finance and Administration		
Board of Finance	341	\$ 115,367
General Services Division		
Property Control	350	<u>28,096</u>
Total General Fund		<u>\$ 143,463</u>
 <u>Special Revenue</u>		
Special Revenue Fund (56900)		
State Treasurer (prior year)	394	\$ 24
Patients Compensation Fund (23500)		
State Treasurer (prior year)	394	<u>2,120</u>
Total Special Revenue		<u>2,144</u>
Total Due From		<u>\$ 145,607</u>
 <u>Due to Agency</u>		
Agency Funds Transportation (19000)		
Department of Transportation	805	\$ 16,046
Insurance Suspense (50800)		
Department of Finance and Administration		
Law Enforcement Fund	341	84,205
Department of Finance and Administration		
Carrie Tingley	341	<u>1,115</u>
Total Agency		<u>101,366</u>
Total Due To		<u>\$ 101,366</u>

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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE H – REVERSIONS**

Unexpended and unencumbered cash balances of certain funds revert to the State General Fund at year end. Also, cash recoveries during the fiscal year from stale dated warrants are due to the State General Fund. Reversions due from State General and Insurance Operations Funds are comprised of the following at June 30, 2011:

	General Fund 430-550	Insurance Ops. 430-039
Budget year 2011 reversions	\$ 1,334,016	\$ 4,942,474
Total due to State General Fund	\$ 1,334,016	\$ 4,942,474

**NOTE I – OTHER FINANCING SOURCES AND USES**

Other financing sources and uses consist of the following:

	Transfers	
	In	Out
Commission Operating Fund (#55000)	\$ 13,158,500	\$ 1,842,384
Patients Compensation Fund (#23500)	-	411,200
Insurance Operations Fund (#03900)	-	5,266,400
Insurance Fraud Fund (#37500)	76,890	1,259,600
Title Insurance Maintenance Fund (#86000)	74,217	402,400
Pipeline Safety Fund (#37700)	629,016	1,044,100
Reproduction Fund (#47700)	-	115,000
Fire Protection Grant Fund (#56900)	2,720,726	-
Insurance Suspense Agency Fund (#50800)	-	92,000
Fire Protection Agency Fund (#57800)	1,062,261	7,288,526
Grand total	\$ 17,721,610	\$ 17,721,610

The purpose of transfers from special revenue and agency funds to the general fund is to support policy and regulation, program support, public safety and insurance policy programs pursuant to the General Appropriation Act, Laws of 2010.

The purpose of transfers from the general fund to the special revenue funds and agency funds is to return annually unexpended transferred amounts back to the fund of origin.

The purpose of transfers from the Fire Protection Agency fund to the Fire Protection Grant fund is to make funds available for distribution to municipal and county fire districts in the succeeding year pursuant to State Statute 59A-53-5.2 NMSA 1978.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE J – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

*Plan Description.* Substantially all of the Commission'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 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. That report is also available on PERA's website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

*Funding Policy.* Plan members are required to contribute 8.92% of their gross salary. The Commission is required to contribute 15.09% of the gross covered salary. The contribution requirements of the 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 employer contributions to PERA for the years ending June 30, 2011, 2010, and 2009 were \$1,856,018, \$2,028,965, and \$2,309,259, respectively, which equal the amount of the required contributions for each fiscal year.

**NOTE K – POST-EMPLOYMENT 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 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 Retiree Health Care Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE K – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN –  
CONTINUED**

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee's annual salary; each participating employee was required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013 the contribution rates for employees and employers will rise as follows:

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

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

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

The Commission's contributions to the RHCA for the years ended June 30, 2011, 2010, and 2009 were \$203,574, \$168,897, and \$168,763, respectively, which equal the required contributions for each year.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE L – RISK MANAGEMENT**

The Commission, as a “State Agency” defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the State of New Mexico. The Commission pays annual premiums to the Risk Management Division for coverage provided in the following areas:

1. Liability and civil rights protection for claims made by others against the State of New Mexico;
2. Coverage to protect the State of New Mexico’s property and assets; and
3. Fringe benefit coverage for State of New Mexico employees.

At June 30, 2011, the Commission had no claims for which the Risk Management Division has determined would not be covered and that would become the responsibility of the Commission.

**NOTE M – JOINT POWERS AGREEMENT AND MEMORANDUM OF UNDERSTANDING**

The Office of the State Fire Marshal entered into an agreement with the New Mexico Energy, Minerals and Natural Resources Department (the financially accountable and audit responsible agency) for Waste Isolation Pilot Plant (WIPP) program activities on July 7, 1988. The agreement is to remain in effect perpetually, unless otherwise noted by either party or the Department of Energy.

The Office of the State Fire Marshal ensures local governments implement activities and address emergency response preparedness as it pertains to the transport of hazardous materials under the Waste Isolation Pilot Plant (WIPP) project. The costs of the projects are 100% funded by the Commission with the funds received by the Energy, Minerals, and Natural Resources Department. Each local government is the fiscal agent and has audit responsibility.

State of New Mexico  
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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE M – JOINT POWERS AGREEMENT AND MEMORANDUM OF UNDERSTANDING –  
CONTINUED**

<u>Government</u>	<u>Local Contributions</u>	<u>Commission Description</u>
City of Artesia	\$ 7,000	Support regional response haz mat team
City of Albuquerque	7,000	Support regional response haz mat team
City of Carlsbad	7,000	Support regional response haz mat team
City of Gallup	7,000	Support regional response haz mat team
City of Hobbs	7,000	Support regional response haz mat team
City of Las Vegas	6,000	Support regional response haz mat team
City of Raton	7,000	Support regional response haz mat team
City of Roswell	7,000	Support regional response haz mat team
City of Santa Fe	7,000	Support regional response haz mat team
City of Vaughn	5,000	Support regional response haz mat team
Chaves County	11,000	Support first responder training
Cibola County	10,000	Support first responder training
Colfax County	7,000	Support first responder training
Eddy County	5,000	Support first responder training
McKinley County	15,000	Support first responder training
San Miguel County	7,000	Support first responder training
Santa Fe County	15,000	Support first responder training
Torrance County	<u>7,000</u>	Support first responder training
 Total	 <u>\$ 144,000</u>	

The Commission entered into a Memorandum of Understanding (MOU) with New Mexico State University (the operationally responsible and financially accountable party) to advise the Commission and Commission's Office of General Counsel on Case Nos. 08-00009-UT and 10-00086-UT. The MOU began on October 13, 2010 and was effective until June 30, 2011. The Commission was considered the fiscal agent for this agreement and also held audit responsibility. The estimated project amount was \$15,000 paid at a rate of \$58 per hour by the Commission. The final invoiced total was \$9,300.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE N – CONTINGENT LIABILITIES**

The Commission as a State Agency defined in the New Mexico Tort Claims Act is insured through the Risk Management Division of the General Services Department of the State of New Mexico. Annual premiums are paid to the Office of Risk Management for coverage provided in the following areas:

1. Liability and civil rights protection for claims made by others against the State of New Mexico;
2. Coverage to protect the State of New Mexico's property and assets; and
3. Fringe benefit coverage for State of New Mexico employees.

The Commission is a defendant in various lawsuits regarding regulatory matters and former employees. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Commission's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the Commission.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor, if any, cannot be determined at this time, although the Commission expects such amounts to be immaterial.

**NOTE O – SUBSEQUENT EVENTS**

Events subsequent to June 30, 2011 have been evaluated by management through November 29, 2011, the date of the auditor's report. In the opinion of management, no events occurring after June 30, 2011 require adjustment to the financial statements.

One matter requires disclosure. On June 21, 2011, the PRC self reported to the New Mexico Attorney General and subsequently to the State Auditor its discovery of excessive and possibly fraudulent gas card usage by Commissioner Jerome Block Jr. Jerome Block Jr. resigned as PRC Commissioner on October 7, 2011. The State Auditor investigated and reported on this activity identifying unreasonable charges to the State of New Mexico for Commissioner Block's term of \$8,842 and authorized a "special agreed upon procedure" engagement to investigate possible risk factors in PRC policies and procedures for periods prior to the current fiscal year. The special audit was in process at the date of the financial statement.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011

**NOTE P – PRIOR PERIOD ADJUSTMENTS AND RESTATEMENTS**

1. Restatements Adjustments

During management's review of all beginning fund balances for the fiscal year 2011 it was discovered that two funds were missing from the prior year audited financial statements. One fund was the American Recovery and Reinvestment Fund (SHARE 89000) and the other fund was the Fire Safer Cigarette and Fire Protection Fund (SHARE 10890). As a result, a prior period adjustment of \$244,750 was required to increase the current year beginning fund balance in the Fire Safe Cigarette Fund. The American Recovery and Reinvestment Fund did not have a fund balance at the end of the prior year therefore no corresponding prior year adjustment was necessary. Additionally in fiscal year 2011, management changed its method of accounting for severance tax bond proceeds to account for the revenue in the period the eligibility criteria is met in conformance with GASB 33. This change in revenue recognition policy resulted in reducing prior year fund balance in the General Fund (SHARE 55000) by \$25,721. The net effect of these changes was to increase beginning net assets by \$219,029.

2. Restatements as Required by GASB 54

GASB Statement No. 54 clarifies the existing governmental fund types definitions and provides clearer fund balance categories and classifications. The hierarchical fund balance classifications are based primarily upon the extent to which government is bound to follow constraints on resources in governmental funds and includes the terms: non-spendable, restricted, committed, assigned, and unassigned. GASB Statement No. 54 was implemented in the current fiscal year and requires retroactive restatement. All of the Commission's fund balances previously classified as "Unreserved: Designated for future year expenditures" totaling \$63,066,820 at the end of June 30, 2010 with the exception of the Reproduction fund (SHARE 47700) were reclassified as "Restricted fund balances" in the governmental funds balance sheet as of beginning of fiscal year 2011. The Reproduction beginning fund balance of \$357,741 at the end of June 30, 2010 was reclassified as "Committed fund balance" in the nonmajor governmental fund balance sheet as of the beginning of fiscal year 2011.

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**GENERAL FUND - PROGRAMS AND PROJECTS**

June 30, 2011

*General Fund:* The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. (SHARE Fund #43000-55000)

For budget purposes, the General Fund is divided into the following programs and projects:

Programs:

- Policy and Regulation
- Public Safety
- Agency Support
- Insurance Policy

Projects:

- FFTA Evidence Processing Room
- Evidence Processing Building
- Marian Hall

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Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
GENERAL FUND (SHARE 55000) – POLICY AND REGULATION (P611)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
General fund appropriation	\$ 7,072,800	\$ 6,843,300	\$ 6,843,300	\$ -
Reversions to the state general fund	-	-	(450,387)	(450,387)
Other financing sources	479,000	479,000	479,000	-
Federal funds	-	-	-	-
Other fees	-	-	5,523	5,523
<b>Total budgeted revenues</b>	<b>7,551,800</b>	<b>7,322,300</b>	<b>6,877,436</b>	<b>(444,864)</b>
<b>Expenditures:</b>				
Personnel services	6,601,300	6,381,300	6,159,417	221,883
Contractual services	205,300	128,800	93,934	34,866
Operating costs	745,200	812,200	624,085	188,115
<b>Total budgeted expenditures</b>	<b>7,551,800</b>	<b>7,322,300</b>	<b>6,877,436</b>	<b>444,864</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
GENERAL FUND (SHARE 55000) – PUBLIC SAFETY (P612)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
General fund appropriation	\$ -	\$ -	\$ -	\$ -
Internal reversions within the Commission	-	-	(1,691,278)	(1,691,278)
Other financing sources	5,373,200	5,373,200	5,136,800	(236,400)
Federal funds	573,500	819,960	1,242,651	422,691
Other fees	-	-	373,458	373,458
<b>Total budgeted revenues</b>	<b>5,946,700</b>	<b>6,193,160</b>	<b>5,061,631</b>	<b>(1,131,529)</b>
Expenditures:				
Personnel services	3,609,900	3,609,900	3,306,135	303,765
Contractual services	364,100	390,665	242,218	148,447
Operating costs	1,972,700	2,192,595	1,513,278	679,317
<b>Total budgeted expenditures</b>	<b>5,946,700</b>	<b>6,193,160</b>	<b>5,061,631</b>	<b>1,131,529</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>



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**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
GENERAL FUND (SHARE 55000) – AGENCY SUPPORT (P613)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
General fund appropriation	\$ 2,767,900	\$ 2,678,000	\$ 2,678,000	\$ -
Reversions to the state general fund	-	-	(349,184)	(349,184)
Other financing sources	667,600	667,600	667,600	-
Federal funds	-	-	-	-
Other fees	-	-	-	-
Total budgeted revenues	3,435,500	3,345,600	2,996,416	(349,184)
<b>Expenditures:</b>				
Personnel services	2,907,200	2,794,000	2,650,774	143,226
Contractual services	94,500	76,900	66,314	10,586
Operating costs	433,800	474,700	279,328	195,372
Total budgeted expenditures	3,435,500	3,345,600	2,996,416	349,184
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ -	\$ -

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**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
GENERAL FUND (SHARE 55000) – INSURANCE POLICY (P675)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
General fund appropriation	\$ -	\$ -	\$ -	\$ -
Internal reversions within the Commission	-	-	(151,106)	(151,106)
Reversions to the state general fund	-	-	(522,749)	(522,749)
Other financing sources	6,783,100	6,783,100	6,783,100	-
Federal funds	-	1,226,426	138,560	(1,087,866)
Other fees	-	-	5,397	5,397
<b>Total budgeted revenues</b>	<b>6,783,100</b>	<b>8,009,526</b>	<b>6,253,202</b>	<b>(1,756,324)</b>
<b>Expenditures:</b>				
Personnel services	5,797,100	6,113,450	5,295,692	817,758
Contractual services	327,500	1,058,676	349,218	709,458
Operating costs	658,500	837,400	608,292	229,108
<b>Total budgeted expenditures</b>	<b>6,783,100</b>	<b>8,009,526</b>	<b>6,253,202</b>	<b>1,756,324</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
GENERAL FUND (SHARE 55000) – FFTA EVIDENCE PROCESSING ROOM (A083282)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
General fund appropriation	\$ -	\$ -	\$ -	\$ -
Reversions	-	-	-	-
Bond Proceeds	-	-	818	818
Other financing sources	-	-	-	-
Federal funds	-	-	-	-
Other fees	-	-	-	-
	-	-	-	-
Total budgeted revenues	-	-	818	818
Expenditures:				
Personnel services	-	-	-	-
Contractual services	-	818	818	-
Operating costs	-	-	-	-
	-	-	-	-
Total budgeted expenditures	-	818	818	-
Excess (deficiency) of revenues over expenditures (prior year cash balance required to balance budget)	-	(818)	\$ -	\$ 818
Cash balance carryforward		818		
Total	\$ -	\$ -		

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**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
GENERAL FUND (SHARE 55000) – EVIDENCE PROCESSING BUILDING (A093086)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
General fund appropriation	\$ -	\$ -	\$ -	\$ -
Reversions to the state general fund	-	-	-	-
Bond Proceeds	-	-	28,487	28,487
Other financing sources	-	-	-	-
Federal funds	-	-	-	-
Other fees	-	-	-	-
	-	-	28,487	28,487
Total budgeted revenues	-	-	28,487	28,487
Expenditures:				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Operating costs	135,000	135,000	28,487	106,513
	135,000	135,000	28,487	106,513
Total budgeted expenditures	135,000	135,000	28,487	106,513
Excess (deficiency) of revenues over expenditures (prior year cash balance required to balance budget)	(135,000)	(135,000)	\$ -	\$ 135,000
Cash balance carryforward	135,000	135,000		
Total	\$ -	\$ -		

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**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
GENERAL FUND (SHARE 55000) – INSURANCE DIVISION IT UPGRADE (Z9070)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
General fund appropriation	\$ -	\$ -	\$ -	\$ -
Reversions to the state general fund	-	-	(11,696)	(11,696)
Other financing sources	-	92,000	92,000	-
Federal funds	-	-	-	-
Other fees	-	-	-	-
Total budgeted revenues	-	92,000	80,304	(11,696)
 <b>Expenditures:</b>				
Personnel services	-	-	-	-
Contractual services	-	84,000	80,304	3,696
Operating costs	-	8,000	-	8,000
Total budgeted expenditures	-	92,000	80,304	11,696
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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**NONMAJOR FUNDS**

June 30, 2011

*Insurance Examination Fund.* To account for funds received from insurance companies and insurance agencies which have been financially audited and examined for financial solvency and claim payment practices. These funds are used to defray travel and per diem costs pursuant to Section 59A-4-14 NMSA 1978 and is non-reverting. (SHARE Fund #43000-11300)

*Insurance Licensee Continuing Education Fund.* To account for funds received and expended for the purpose of administering the continuing education program pursuant to the provisions of Section 59A-12-26 NMSA 1978. The fund is non-reverting. (SHARE Fund #43000-17100)

*Title Insurance Maintenance Fund.* To account for fees relating to the New Mexico Title Insurance Law, Section 59A-30-1 through 59A-30-15. NMSA 1978. The Superintendent of Insurance determines a rate of assessment and collects a maintenance fee that does not exceed 1% of the gross title insurance premiums on policies written in New Mexico. The fee is deposited into the "Title Insurance Maintenance Assessment Fund" for use in paying expenses incurred in regulating and administering the New Mexico Title Insurance Law, including compensation and expenses of personnel and consultants. The purpose of the program is to promulgate rules and regulations to protect consumers and purchasers of title insurance pursuant to the McCarran-Ferguson Act (P.L. 79-15, U.S.C. Section 1001-1015). The fund is non-reverting. (SHARE Fund #43000-86000)

*Insurance Fraud Fund.* To account for all fees collected under the provisions of the Insurance Fraud Act, Section 59A-16C-1 through 59A-16C-16, NMSA 1978, which shall be deposited in the fund and are subject to appropriation for use in paying the expenses incurred by the Superintendent of Insurance in carrying out the provisions of the Insurance Fraud Act. Interest on the fund shall be credited to the fund. The fund is a continuing, non-reverting fund. (SHARE Fund #43000-37500)

*Fire Safer Cigarette and Fire Protection Fund.* To account for revenue and other fees paid under Section 4 (57-2B-4 NMSA 1978) of the Fire-Safer Cigarette and Firefighter Protection Act and money recovered as penalties under Section 6 (57-2B-6 NMSA 1978) of that act. The money in the fund is appropriated to the state fire marshal to enforce the Fire-safer Cigarette and Firefighter Protection Act (57-2B-1 NMSA 1978) and to support fire safety and prevention programs. This fund is non-reverting. (SHARE Fund #43000-10890)

*Reproduction Fee Fund.* To account for the revenue and related expenses of providing copying services to other state agencies, to the general public and to other divisions within the Public Regulation Commission. This fund is non-reverting. (SHARE Fund # 43000-47700)

*Fire Fighters Use Fee.* To account for fees paid by non-state fire fighters that are used for the fire fighters Training Academy. This fund is non-reverting. (SHARE Fund #43000-09300)

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**NONMAJOR FUNDS – CONTINUED**

June 30, 2011

*ARRA Renewable Energy Fund.* To account for funds received and expended for the purpose of administering the State Electricity Regulator's Assistance Renewable Energy program. The program is designed to promote and assist with the implementation of renewable energy plans and reports pursuant to the Renewable Energy Act 62-16-1 of NMSA 1978 and Title 17.9.572 NMAC. This fund is non-reverting. (SHARE Fund #43000-89000)

*Pipeline Safety Fund.* To account for fees collected pursuant to Subsection D of 70-3-21 NMSA 1978, appropriations, gifts, grants, donations, and earnings from investment of the fund. Balances in the fund at year-end do not revert to the general fund. The purpose of the fund is for enhancing the staffing and training of Pipeline Safety Bureau for the inspection function of interstate and intrastate pipelines. (SHARE #43000-37700)

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**COMBINING BALANCE SHEET – ALL NONMAJOR FUNDS**

June 30, 2011

	Insurance Examination- 11300	Insurance Licensee Continuing Education- 17100	Title Insurance Maintenance- 86000	Insurance Fraud- 37500
<b>ASSETS</b>				
Investments, State Treasurer Investment Pool	\$ 20,000	\$ 731,458	\$ 40,453	\$ 81,367
Due from the federal government	-	-	-	-
Due from other funds	-	-	74,217	76,890
Total assets	\$ 20,000	\$ 731,458	\$ 114,670	\$ 158,257
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued payroll	-	-	-	-
Investments, State Treasurer Investment Pool-overdraft	-	-	-	-
Due to other funds	-	-	-	-
Due to State General Fund	-	-	-	-
Total liabilities	-	-	-	-
<b>FUND BALANCES</b>				
Restricted	20,000	731,458	114,670	158,257
Committed	-	-	-	-
Total fund balances	20,000	731,458	114,670	158,257
Total liabilities and fund balances	\$ 20,000	\$ 731,458	\$ 114,670	\$ 158,257



<u>Fire Safer Cigarette and Fire Protection- 10890</u>	<u>Reproduction Fund- 47700</u>	<u>Firefighters Use Fee- 09300</u>	<u>ARRA Renewable Energy- 89000</u>	<u>Pipeline Safety- 37700</u>	<u>Total</u>
\$ 292,500	\$ 335,537	\$ 851,145	\$ -	\$ 1,167,175	\$ 3,519,635
-	-	-	37,307	-	37,307
-	-	-	-	629,016	780,123
<u>292,500</u>	<u>\$ 335,537</u>	<u>\$ 851,145</u>	<u>\$ 37,307</u>	<u>\$ 1,796,191</u>	<u>\$ 4,337,065</u>
\$ -	\$ -	\$ -	\$ 986	\$ -	\$ 986
-	-	-	5,956	-	5,956
-	-	-	30,365	-	30,365
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	37,307	-	37,307
292,500	-	851,145	-	1,796,191	3,964,221
-	335,537	-	-	-	335,537
<u>292,500</u>	<u>335,537</u>	<u>851,145</u>	<u>-</u>	<u>1,796,191</u>	<u>4,299,758</u>
<u>\$ 292,500</u>	<u>\$ 335,537</u>	<u>\$ 851,145</u>	<u>\$ 37,307</u>	<u>\$ 1,796,191</u>	<u>\$ 4,337,065</u>

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**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES – ALL NONMAJOR FUNDS**

June 30, 2011

	Insurance Examination- 11300	Insurance Licensee Continuing Education- 17100	Title Insurance Maintenance- 86000	Insurance Fraud- 37500
Revenues				
Insurance tax	\$ -	\$ 108,792	\$ -	\$ 667,053
Grant funds	-	-	-	-
Other fees	-	-	143,783	-
	-	108,792	143,783	667,053
Total revenues	-	108,792	143,783	667,053
Expenditures				
Personnel services	-	-	-	-
Operating costs	-	-	-	-
	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over expenditures	-	108,792	143,783	667,053
Other financing sources and (uses)				
Other financing sources - transfers in	-	-	74,217	76,890
Other financing uses - transfers out	-	-	(402,400)	(1,259,600)
	-	-	(328,183)	(1,182,710)
Total other financing sources and (uses)	-	-	(328,183)	(1,182,710)
Excess (deficiency) of revenues and other financing sources over expenditures	-	108,792	(184,400)	(515,657)
Fund balances, beginning of year, previously stated	20,000	622,666	299,070	673,914
Restatements-See Note P	-	-	-	-
	-	-	-	-
Fund balances, beginning of year, restated	20,000	622,666	299,070	673,914
Fund balances, end of year	\$ 20,000	\$ 731,458	\$ 114,670	\$ 158,257

Fire Safer Cigarette and Fire Protection Fund- 10890	Reproduction Fund- 47700	Firefighters Use Fee- 09300	ARRA Renewable Energy- 89000	Pipeline Safety- 37700	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 775,845
-	-	-	164,212	-	164,212
<u>47,750</u>	<u>92,796</u>	<u>78,761</u>	<u>-</u>	<u>760,745</u>	<u>1,123,835</u>
<u>47,750</u>	<u>92,796</u>	<u>78,761</u>	<u>164,212</u>	<u>760,745</u>	<u>2,063,892</u>
-	-	-	157,574	-	157,574
-	-	-	6,638	-	6,638
-	-	-	164,212	-	164,212
47,750	92,796	78,761	-	760,745	1,899,680
-	-	-	-	629,016	780,123
-	<u>(115,000)</u>	-	-	<u>(1,044,100)</u>	<u>(2,821,100)</u>
-	<u>(115,000)</u>	-	-	<u>(415,084)</u>	<u>(2,040,977)</u>
47,750	(22,204)	78,761	-	345,661	(141,297)
-	357,741	772,384	-	1,450,530	4,196,305
<u>244,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>244,750</u>
<u>244,750</u>	<u>357,741</u>	<u>772,384</u>	<u>-</u>	<u>1,450,530</u>	<u>4,441,055</u>
<u>\$ 292,500</u>	<u>\$ 335,537</u>	<u>\$ 851,145</u>	<u>\$ -</u>	<u>\$ 1,796,191</u>	<u>\$ 4,299,758</u>

State of New Mexico  
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**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
INSURANCE EXAMINATION FUND (SHARE 11300)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Insurance tax	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Other financing uses	-	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	\$ -	\$ -
Cash balance carryforward	-	-		
Total	\$ -	\$ -		

No budget was adopted for this fund due to inactivity in FY11.

State of New Mexico  
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**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
INSURANCE LICENSEE CONTINUING EDUCATION FUND (SHARE 17100)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Insurance tax	\$ -	\$ -	\$ 108,792	\$ 108,792
Expenditures:				
Other financing uses	-	-	-	-
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,792</u>	<u>\$ 108,792</u>

No budget was adopted in this fund for FY11 due to inactivity.

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**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
TITLE INSURANCE MAINTENANCE FUND (SHARE 86000)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other financing sources	\$ -	\$ -	\$ 74,217	\$ 74,217
Other fees	-	-	143,783	143,783
Total revenues	-	-	218,000	218,000
 Expenditures:				
Other financing uses	402,400	402,400	402,400	-
Excess (deficiency) of revenues over expenditures	(402,400)	(402,400)	<u>\$ (184,400)</u>	<u>\$ 218,000</u>
 Cash balance carryforward	<u>402,400</u>	<u>402,400</u>		
 Total	<u>\$ -</u>	<u>\$ -</u>		

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**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
INSURANCE FRAUD FUND (SHARE 37500)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Insurance tax	\$ -	\$ -	\$ 667,053	\$ 667,053
Other financing sources	-	-	76,890	76,890
	-	-	743,943	743,943
Expenditures:				
Other financing uses	1,259,600	1,259,600	1,259,600	-
	(1,259,600)	(1,259,600)	<u>\$ (515,657)</u>	<u>\$ 743,943</u>
Excess (deficiency) of revenues over expenditures				
	1,259,600	1,259,600		
Cash balance carryforward				
	\$ -	\$ -		
Total	\$ -	\$ -		

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**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
FIRE SAFER CIGARETTE AND FIRE PROTECTION FUND (SHARE 10890)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other Fees	\$ -	\$ -	\$ 47,750	\$ 47,750
Expenditures:				
Other financing uses	-	-	-	-
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,750</u>	<u>\$ 47,750</u>



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**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
REPRODUCTION FUND (SHARE 47700)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Printing and reproduction	\$ -	\$ -	\$ 92,796	\$ 92,796
Expenditures:				
Other financing uses	115,000	115,000	115,000	-
Excess (deficiency) of revenues over expenditures	(115,000)	(115,000)	\$ (22,204)	\$ 92,796
Cash balance carryforward	115,000	115,000		
Total	\$ -	\$ -		

State of New Mexico  
Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
FIREFIGHTERS USE FEE FUND (SHARE 09300)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other fees	\$ -	\$ -	\$ 78,761	\$ 78,761
Expenditures:				
Other	-	-	-	-
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,761</u>	<u>\$ 78,761</u>

There was no budget established for this fund in FY11 due to inactivity.

State of New Mexico  
Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
ARRA FUND (SHARE 89000)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Federal Grants	\$ 800,578	\$ 800,578	\$ 164,212	\$ (636,366)
Expenditures:				
Personnel services	511,084	511,084	157,574	353,510
Contractual services	200,000	200,000	-	200,000
Other	89,494	89,494	6,638	82,856
Total Expenditures	800,578	800,578	164,212	636,366
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ -	\$ (1,272,732)

State of New Mexico  
Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL  
PIPELINE SAFETY FUND (SHARE 37700)**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other fees	\$ -	\$ -	\$ 760,745	\$ 760,745
Other sources	-	-	629,016	629,016
Total revenues	-	-	1,389,761	1,389,761
Expenditures:				
Other financing uses	1,044,100	1,044,100	1,044,100	-
Excess (deficiency) of revenues over expenditures	(1,044,100)	(1,044,100)	<u>\$ 345,661</u>	<u>\$ 1,389,761</u>
Cash balance carryforward	1,044,100	1,044,100		
Total	<u>\$ -</u>	<u>\$ -</u>		

State of New Mexico  
Public Regulation Commission

**AGENCY FUNDS**

June 30, 2011

Agency funds are used to account for assets held as an agent for other governmental units, for claimants and for other funds. The agency funds of the Commission are as follows:

*Trust Funds with the Superintendent of Insurance Fund.* Section 59A-10-4, NMSA 1978 requires insurance companies to deposit with the State Treasurer, through the Superintendent of Insurance, certain securities to be held in trust for the benefit of all its policy holders and creditors. Since the Superintendent of Insurance is acting in a fiduciary capacity, a separate agency fund has been set up to reflect the assets held and related liability. There are no revenues collected on these funds as any earnings are forwarded to the insurance companies and no expenses are attributed to this fund. (Share Fund #43000-41190)

*Motor Transportation Fund.* To account for the collection and payment to the State Road Fund of monies received from both interstate and intrastate motor carriers. Collections are from permits, filing fees, and leases. (SHARE Fund #43000-19000)

*Fire Protection Fund.* To account for the receipts from the Insurance Suspense Fund. The Fire Protection Fund distributes the monies collected for the operations of the State Fire Marshal and for the operations, maintenance, and betterment of local fire districts. Section 59A-53-5-2, NMSA 1978 provides that the remaining balance in the fire protection fund shall be calculated on June 30, of each year and shall equal the balance of the fund on that date less the sum of (1) the total amount to be distributed the succeeding fiscal year and (2) the total amount of other appropriations from the fire protection fund for the succeeding fiscal year. The remaining balance in the fire protection fund shall be transferred from the fire protection fund to the fire protection grant fund on a percentage basis on June 30<sup>th</sup> of each fiscal year as provided by Section 59A-53-5-2 NMSA 1978 (c). (SHARE Fund # 43000-57800)

*Corporation Fees Fund.* To account for the collection and payment to the State General Fund of monies received from corporations authorized to do business in the State of New Mexico. Collections are from taxes, licenses, permits and various other fees. (SHARE Fund # 43000-50300)

*Qwest Performance Assurance Plan.* To account for collection of Tier 2 payments received in conjunction with Qwest's application for approval under Section 271 of the Telecommunications Act of 1996. An agreement was formed requiring Qwest to meet certain parity and benchmark standards as defined in the agreement dated August 20, 2002. Failure to meet the specified criteria results in Tier 2 payments to the Fund. The fund reverts to the State General Fund. (SHARE Fund #43000-30500)

*Franchise Tax Fund.* To account for the collection and payment to the State General Fund of monies received from corporations and franchises authorized to do business in the State of New Mexico. Collections are from franchise taxes. (SHARE Fund #43000-50400)

State of New Mexico  
Public Regulation Commission

**AGENCY FUNDS – CONTINUED**

June 30, 2011

*Pipeline Fees Fund.* To account for the collection and payment to the State General Fund of monies received from companies that conduct pipeline business in the State of New Mexico. Collections are from various fees set by state statute. (SHARE Fund # 43000-50500)

*Special Corporation Fees Fund.* To account for the collection and payment to the State General Fund of monies collected from railroads, telephone companies and radio communication carriers doing business within the State of New Mexico. Collections are from one-fourth of one percent of the gross receipts of the companies' business within the State of New Mexico. (SHARE Fund # 43000-50600)

*Insurance Suspense Fund.* To account for the collection of fees, licenses, penalties and taxes and payments to the Fire Protection Fund and other various state agencies with the excess transferring to the State General Fund. (SHARE Fund # 43000-50800)

Firefighters Survivors Fund. To account for funds deposited that will be distributed to firefighters family. (Share Fund # 43040-56400)

State of New Mexico  
Public Regulation Commission

**COMBINING BALANCE SHEET – ALL AGENCY FUNDS**

June 30, 2011

	Trust Funds with the Superintendent of Insurance- 41190	Motor Transportation- 19000	Fire Protection Agency Fund- 57800	Corporation Fees- 50300
<b>ASSETS</b>				
Investments, state treasurer investment pool	\$ -	\$ 16,046	\$ 67,737,891	\$ 31,930
Cash in banks - ancillary receivership	1,265,555	-	-	-
Security deposits	431,764,573	-	-	-
Due from external parties-governmental funds	-	-	1,062,261	-
Due from other agency funds	-	-	601,894	-
	<u>\$ 433,030,128</u>	<u>\$ 16,046</u>	<u>\$ 69,402,046</u>	<u>\$ 31,930</u>
Total assets	<u>\$ 433,030,128</u>	<u>\$ 16,046</u>	<u>\$ 69,402,046</u>	<u>\$ 31,930</u>
<b>LIABILITIES</b>				
Due to State General Fund	\$ -	\$ -	\$ 18,645,458	\$ 31,930
Due to other agency funds	-	-	-	-
Due to external parties-governmental funds	-	-	2,720,726	-
Due to other agencies	-	16,046	-	-
Undistributed receipts	-	-	4,865,100	-
Accounts payable	-	-	43,170,762	-
Deposits held in trust	433,030,128	-	-	-
	<u>433,030,128</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 433,030,128</u>	<u>\$ 16,046</u>	<u>\$ 69,402,046</u>	<u>\$ 31,930</u>

Special Corporation Fees Fund-50601	Qwest Performance Assurance Plan-30500	Franchise Tax-50400	Pipeline Fees Agency Fund-50500	Insurance Suspense Agency Fund-50800	Fire Fighter Survivors-56400	Total
\$ -	\$ -	\$ 400	\$ 3,802	\$ 829,403	\$ 50,000	\$ 68,669,472
-	-	-	-	-	-	1,265,555
-	-	-	-	-	-	431,764,573
-	-	-	-	-	-	1,062,261
-	-	-	-	-	-	601,894
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 400</u>	<u>\$ 3,802</u>	<u>\$ 829,403</u>	<u>\$ 50,000</u>	<u>\$ 503,363,755</u>
\$ -	\$ -	\$ 400	\$ 3,802	\$ (30,629)	\$ -	\$ 18,650,961
-	-	-	-	601,894	-	601,894
-	-	-	-	172,818	-	2,893,544
-	-	-	-	85,320	-	101,366
-	-	-	-	-	50,000	4,915,100
-	-	-	-	-	-	43,170,762
-	-	-	-	-	-	433,030,128
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 400</u>	<u>\$ 3,802</u>	<u>\$ 829,403</u>	<u>\$ 50,000</u>	<u>\$ 503,363,755</u>



State of New Mexico  
Public Regulation Commission

**COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES –  
ALL AGENCY FUNDS**

June 30, 2011

	Balance July 1, 2010	Additions	(Deletions)	Balance June 30, 2011
<b><u>TRUST FUNDS WITH SUPERINTENDENT (411900)</u></b>				
<b>ASSETS</b>				
Cash in banks - ancillary receivership	\$ 1,575,316	\$ -	\$ (309,761)	\$ 1,265,555
Security deposits	437,443,705	-	(5,679,132)	431,764,573
Total assets	\$ 439,019,021	\$ -	\$ (5,988,893)	\$ 433,030,128
<b>LIABILITIES</b>				
Deposits held in trust	\$ 439,019,021	\$ -	\$ (5,988,893)	\$ 433,030,128
Total liabilities	\$ 439,019,021	\$ -	\$ (5,988,893)	\$ 433,030,128
<b><u>MOTOR TRANSPORTATION (19000)</u></b>				
<b>ASSETS</b>				
Investments, state treasurer investment pool	\$ 257,924	\$ 2,740,494	\$ (2,982,372)	\$ 16,046
Total assets	\$ 257,924	\$ 2,740,494	\$ (2,982,372)	\$ 16,046
<b>LIABILITIES</b>				
Due to other state agencies	\$ 257,924	\$ 2,740,494	\$ (2,982,372)	\$ 16,046
Total liabilities	\$ 257,924	\$ 2,740,494	\$ (2,982,372)	\$ 16,046
<b><u>FIRE PROTECTION AGENCY FUND (57800)</u></b>				
<b>ASSETS</b>				
Investments, state treasurer investment pool	\$ 52,812,416	\$ 14,925,475	\$ -	\$ 67,737,891
Due from external parties-governmental funds	703,681	358,580	-	1,062,261
Due from other agency funds	1,444,455	-	(842,561)	601,894
Total assets	\$ 54,960,552	\$ 15,284,055	\$ (842,561)	\$ 69,402,046
<b>LIABILITIES</b>				
Due to State General Fund	\$ 4,995,334	\$ 18,645,458	\$ (4,995,334)	\$ 18,645,458
Due to external parties-governmental funds	772,950	2,720,726	(772,950)	2,720,726
Undistributed receipts	6,021,400	4,865,100	(6,021,400)	4,865,100
Accounts payable	43,170,868	43,170,762	(43,170,868)	43,170,762
Total liabilities	\$ 54,960,552	\$ 69,402,046	\$ (54,960,552)	\$ 69,402,046

State of New Mexico  
Public Regulation Commission

**COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES –  
ALL AGENCY FUNDS – CONTINUED**

June 30, 2011

	Balance July 1, 2010	Additions	(Deletions)	Balance June 30, 2011
<b><u>CORPORATION FEES (50300)</u></b>				
ASSETS				
Investments, state treasurer investment pool	\$ 19,795	\$ 2,852,111	\$ (2,839,976)	\$ 31,930
Total assets	\$ 19,795	\$ 2,852,111	\$ (2,839,976)	\$ 31,930
LIABILITIES				
Due to State General Fund	\$ 19,795	\$ 2,852,111	\$ (2,839,976)	\$ 31,930
Total liabilities	\$ 19,795	\$ 2,852,111	\$ (2,839,976)	\$ 31,930
<b><u>SPECIAL CORPORATION FEES FUND (50400)</u></b>				
ASSETS				
Investments, state treasurer investment pool	\$ -	\$ 15,059,610	\$ (15,059,610)	\$ -
Total assets	\$ -	\$ 15,059,610	\$ (15,059,610)	\$ -
LIABILITIES				
Due to State General Fund	\$ -	\$ 15,059,610	\$ (15,059,610)	\$ -
Total liabilities	\$ -	\$ 15,059,610	\$ (15,059,610)	\$ -
<b><u>QWEST PERFORMANCE ASSURANCE PLAN (30500)</u></b>				
ASSETS				
Investments, state treasurer investment pool	\$ 30,300	\$ 1,200	\$ (31,500)	\$ -
Total assets	\$ 30,300	\$ 1,200	\$ (31,500)	\$ -
LIABILITIES				
Due to State General Fund	\$ 30,300	\$ 1,200	\$ (31,500)	\$ -
Total liabilities	\$ 30,300	\$ 1,200	\$ (31,500)	\$ -
<b><u>FRANCHISE TAX (50400)</u></b>				
ASSETS				
Investments, state treasurer investment pool	\$ 825	\$ 72,535	\$ (72,960)	\$ 400
Total assets	\$ 825	\$ 72,535	\$ (72,960)	\$ 400
LIABILITIES				
Due to State General Fund	\$ 825	\$ 72,535	\$ (72,960)	\$ 400
Total liabilities	\$ 825	\$ 72,535	\$ (72,960)	\$ 400

State of New Mexico  
Public Regulation Commission

**COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES –  
ALL AGENCY FUNDS – CONTINUED**

June 30, 2011

	Balance July 1, 2010	Additions	(Deletions)	Balance June 30, 2011
<b><u>PIPELINE FEES (50500)</u></b>				
<b>ASSETS</b>				
Investments, state treasurer investment pool	\$ -	\$ 74,152	\$ (70,350)	\$ 3,802
Total assets	<u>\$ -</u>	<u>\$ 74,152</u>	<u>\$ (70,350)</u>	<u>\$ 3,802</u>
<b>LIABILITIES</b>				
Due to State General Fund	\$ -	\$ 74,152	\$ (70,350)	\$ 3,802
Total liabilities	<u>\$ -</u>	<u>\$ 74,152</u>	<u>\$ (70,350)</u>	<u>\$ 3,802</u>
<b><u>INSURANCE SUSPENSE (50800)</u></b>				
<b>ASSETS</b>				
Investments, state treasurer investment pool	\$ 1,098,088	\$226,889,808	\$ (227,158,493)	\$ 829,403
Total assets	<u>\$ 1,098,088</u>	<u>\$226,889,808</u>	<u>\$ (227,158,493)</u>	<u>\$ 829,403</u>
<b>LIABILITIES</b>				
Due to State General Fund	\$ 2,578,165	\$ 30	\$ (2,608,824)	\$ (30,629)
Due to other agency funds	1,444,456	-	(842,562)	601,894
Due to external parties-governmental funds	1,395,932	-	(1,223,114)	172,818
Due to other state agencies	933,345	-	(848,025)	85,320
Undistributed receipts	(5,253,810)	5,253,810	-	-
Total liabilities	<u>\$ 1,098,088</u>	<u>\$ 5,253,840</u>	<u>\$ (5,522,525)</u>	<u>\$ 829,403</u>
<b><u>FIREFIGHTERS' SURVIVOR (56400)</u></b>				
<b>ASSETS</b>				
Investments, state treasurer investment pool	\$ 50,000	\$ -	\$ -	\$ 50,000
Total assets	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,000</u>
<b>LIABILITIES</b>				
Undistributed receipts	\$ 50,000	\$ -	\$ -	\$ 50,000
Total liabilities	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,000</u>

State of New Mexico  
Public Regulation Commission

**SCHEDULE OF SPECIAL APPROPRIATIONS**

June 30, 2011

	Current Year Revenue	Amount Appropriated	Current Year Expenditures	Project to Date Expenditures	Unexpended Portion	Unexpended and Reverted
<b>Bond Proceeds Appropriations</b>						
Laws of 2008, Chapter 92, Section 23 Public Regulation Commission	818	200,000	818	198,000	2,000	-
Laws of 2009, Chapter 125, Section 7, Item 19 Public Regulation Commission	28,487	135,000	28,487	106,904	28,096	-
<b>Special Appropriations</b>						
Laws of 2009, Chapter 124, Section 7, Item 7 Public Regulation Commission	-	92,000	80,304	80,304	11,696	11,696

State of New Mexico  
Public Regulation Commission

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year ended June 30, 2011

Federal Grantor/ Pass Through Grantor/Program Title	Grant Number or Pass Through Number	Federal Catalog of Domestic Assistance Number	Total Federal Award Expenditures
<b>U.S. Department of Transportation:</b>			
<b>Direct Programs:</b>			
Gas Pipeline Safety	DTPH56-09-G-PHPG29	20.700	\$ 280,776
Gas Pipeline Safety	DTPH56-10-G-PHPG29	20.700	504,094
Hazardous Liquid Pipeline Safety	DTPH56-09-G-PHPL12	20.700	17,277
Hazardous Liquid Pipeline Safety	DTPH56-10-G-PHPL12	20.700	<u>42,817</u>
			844,964
Damage Prevention Pipeline Safety		20.720	47,484
Gas Pipeline Safety (One-call)	DTPH56-10-G-PHPC21	20.721	<u>42,978</u>
<b>Total U.S. Department of Transportation</b>			935,426
<b>U.S. Department of Energy:</b>			
<b>Direct Programs:</b>			
State Electric Regulator's Assistance Award (ARRA)	DE-OE0000162	81.122	164,212
Pass through program from State of New Mexico, Energy, Minerals, and Natural Resources Department Waste Isolation Pilot Plan Enhancement of the State of New Mexico's Emergency Response Capability	DE-FC29-88AL53813	81.106	<u>217,276</u>
<b>Total U.S. Department of Energy</b>			381,488

State of New Mexico  
Public Regulation Commission

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED**

Year ended June 30, 2011

Federal Grantor/ Pass Through Grantor/Program Title	Grant Number or Pass Through Number	Federal Catalog of Domestic Assistance Number	Total Federal Award Expenditures
<b>U.S. Department of Health and Human Services:</b>			
<b>Direct Programs:</b>			
Health Insurance Premium Review	IPRPR100038-01-00	93.511	112,070
Consumer Assistance Program Grant	CAPCA110039-01-00	93.519	<u>26,490</u>
<b>Total U.S. Department of Health and Human Services</b>			138,560
<b>U.S. Department of HUD:</b>			
<b>Direct Programs:</b>			
Economic development initiatives - Special Projects - Firefighters training and equipment	B-05-SP-NM-0183	14.251	<u>79,074</u>
<b>Total U.S. Department of HUD</b>			79,074
<b>U.S. Department of Homeland Security:</b>			
<b>Direct Programs:</b>			
State Fire Training Grants	EMW-2008-GR-0686 / 2009-RB-63-0133	97.043	<u>10,875</u>
<b>Total U.S. Department of Homeland Security</b>			<u>10,875</u>
<b>Total expenditures of federal awards</b>			<u><u>\$ 1,545,423</u></u>
Federal expenditures per above			<u>\$ 1,545,423</u>
Grant revenue per financial statements			<u><u>\$ 1,545,423</u></u>

The Schedule of Federal Awards is prepared on the accrual basis of accounting.



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

Public Regulation Commissioners  
State of New Mexico  
Public Regulation Commission  
and  
Mr. Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the budgetary comparison for the General Fund and Major Special Revenue Funds, and the aggregate remaining fund information of the State of New Mexico Public Regulation Commission (Commission), as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. We have also audited the financial statements of each of the Commission's nonmajor governmental funds and respective budgetary comparisons presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2011, as listed in the table of contents, and have issued our report thereon dated November 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the

accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management of 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness as finding 11-01.

A *significant deficiency* is a deficiency or combination of deficiencies that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 11-03 and 11-07 to be significant deficiencies.

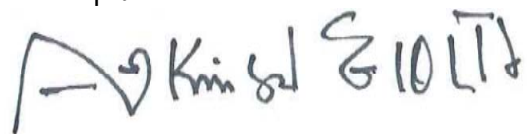
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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 the following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* as finding 11-02.

We noted certain other matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16 and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as findings 02-03, 11-04, 11-05, 11-06, and 11-08.

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Commission's response and, accordingly, we express no opinion on it.

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

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

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 29, 2011





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**INDEPENDENT AUDITOR REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Public Regulation Commissioners  
State of New Mexico  
Public Regulation Commission  
and  
Mr. Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

Compliance

We have audited the State of New Mexico Public Regulation Commission's (Commission) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2011. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of *Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as finding 11-02.

### Internal Control Over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

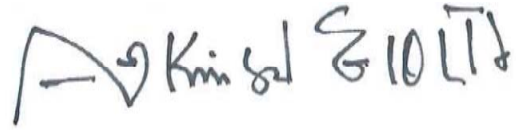
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we did identify a deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies in internal control over compliance that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 11-01 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 11-03 and 11-07 to be significant deficiencies.

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

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

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd." with a stylized initial "A" and "C" on the left.

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 29, 2011

State of New Mexico  
Public Regulation Commission

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the year ended June 30, 2011

**I. Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?      Yes  X  No

*Federal Awards*

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?  X  Yes      No

**II. Findings – Findings and Questioned Costs – Major Federal Award Programs Audit**

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>	<u>Questioned Cost</u>
20.700	Department of Transportation: Gas Pipeline Safety and Hazardous Liquid Pipeline Safety	\$550
81.122	American Recovery and Reinvestment Act State Electric Regulator's Assistance	None

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

For the year ended June 30, 2011

**II. Findings – Findings and Questioned Costs – Major Federal Award Programs Audit – Continued**

Dollar threshold used to distinguish between  
type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes  No

**III. Status of Prior Audit Findings**

<u>Comment</u>	<u>Current Status</u>
02-03 Cash Receipts Deposits	Repeated and Modified
09-03 Pipeline Safety Program – Financial Status Reports	Resolved

**IV. Current Audit Findings**

**Financial Statement Findings Required by Government Auditing Standards**

- 11-01 ARRA FUND AND FIRE SAFETY CIGARETTE AND FIRE PROTECTION FUND MISSING IN PRIOR YEAR AUDIT (MATERIAL WEAKNESS)
- 11-02 FEDERAL GRANT REPORTING COMPLIANCE (NON-COMPLIANCE)
- 11-03 DATA COLLECTION FORM SUBMISSION-NO FILING (SIGNIFICANT DEFICIENCY)
- 11-07 CONTROLS OVER ASSIGNMENT OF VEHICLES AND DOCUMENTATION OF VEHICLE USAGE (SIGNIFICANT DEFICIENCY)

**Findings in Accordance with OMB Circular A-133**

- 11-01 ARRA FUND AND FIRE SAFETY CIGARETTE AND FIRE PROTECTION FUND MISSING IN PRIOR YEAR AUDIT (MATERIAL WEAKNESS)
- 11-02 FEDERAL GRANT REPORTING COMPLIANCE (NON-COMPLIANCE)
- 11-03 DATA COLLECTION FORM SUBMISSION – NO FILING (SIGNIFICANT DEFICIENCY)
- 11-07 CONTROLS OVER ASSIGNMENT OF VEHICLES AND DOCUMENTATION OF VEHICLE USAGE (SIGNIFICANT DEFICIENCY)

**Findings in Accordance with 2.2.2. NMAC**

- 02-03 CASH RECEIPTS DEPOSITS (REPEATED AND MODIFIED) – OTHER
- 11-04 CAPITAL ASSET DISPOSALS – OTHER
- 11-05 USE OF STATE ISSUED GAS CREDIT CARDS – OTHER
- 11-06 STATE VEHICLES AND COMMUTING - OTHER
- 11-08 VIOLATION REFERRAL – OTHER

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

For the year ended June 30, 2011

**Financial Statement Findings Required by Government Auditing Standards**

**Findings in Accordance with OMB Circular A-133**

**11-01 ARRA FUND AND FIRE SAFETY CIGARETTE AND FIRE PROTECTION FUND  
MISSING IN PRIOR YEAR AUDIT (MATERIAL WEAKNESS)**

*Funding Agency:* U.S. Department of Energy  
*Title:* State Electric Regulator's Assistance Award  
*CFDA Number:* 81.122

*Condition:*

During our review of all beginning fund balances for the fiscal year 2011 we noted two funds were missing from the prior year audited financial statements. One fund was the American Recovery and Reinvestment fund (SHARE 89000) and the other fund was the Fire Safer Cigarette and Fire Protection Fund (SHARE 10890).

*Criteria:*

Good internal controls require management to review financial statements to ensure all funds, accounts, and transactions pertaining to the fiscal year under audit are reported in the audited financial statements.

State audit rule 2.2.2.10 A. Scope of Annual Financial Audit states “the financial audit shall cover the entire financial reporting entity including the primary government and any component units of the primary government.”

*Effect:*

Prior period adjustments of \$244,750 were required to correct the current year beginning fund balances in the Fire Safer Cigarette Fund. Users of financial statements were unable to review the financial statements for both the ARRA and the Fire Safer Cigarette Funds for fiscal year ending June 30, 2011.

*Cause:*

The predecessor auditor did not include those funds in the prior year audited financial statements. Management did not review to ensure those funds were reported in the prior year audited financial statements.

*Recommendation:*

We recommend management review the financial statements prior to delivery to the state auditor to ensure every fund, account and transaction under the control of PRC is reported in the audited financial statements.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

For the year ended June 30, 2011

**Financial Statement Findings Required by *Government Auditing Standards* – Continued**

**Findings in Accordance with OMB Circular A-133 – Continued**

**11-01 ARRA FUND AND FIRE SAFETY CIGARETTE AND FIRE PROTECTION FUND  
MISSING IN PRIOR YEAR AUDIT (MATERIAL WEAKNESS) – CONTINUED**

*Management's Response:*

The Commission acknowledges that the two funds in question were omitted in last year's audit and therefore required a prior year adjustment. The two funds in question were two funds that were new last year and in working with the previous auditor the ARRA fund was discussed and included in the schedule of federal expenditures but was not included as a new fund in the financial statements. The second fund, the Fire Safer Cigarette fund was not picked up by commission staff while preparing the trial balances for audit and therefore was not put on the financial statements. The NMPRC self reported that the two funds were missing and have corrected this situation by ensuring that the trial balances are reviewed quarterly and while preparing the adjusted trial balances for the audit that all funds are reviewed and checked by two people to ensure that all funds are addressed in the audit. Financial reconciliations will be done by the NMPRC on a quarterly basis to ensure that all financial transactions are addressed in all funds timely and accurately.

**11-02 FEDERAL GRANT REPORTING COMPLIANCE (NON-COMPLIANCE)**

*Funding Agency:* U.S. Department of Transportation

*Title:* Pipeline Safety Natural Gas and Pipeline Safety Hazardous Liquid

*CFDA Number:* 20.700

*Condition:*

During our testing of all reporting requirements with respect to the Federal American Recovery and Reinvestment Act grant used to fund the State Electricity Regulator's Assistance Renewable Energy Program we identified once instance in which the quarterly reporting package, including the Federal Financial Report and Progress Report for the period of January 1, 2011 through March 31, 2011 was submitted five days after the required deadline of April 30, 2011.

*Criteria:*

According to the US Department of Energy Code of Federal Regulations, 10 CFR 600 § 600.151, quarterly reports are due 30 days after the reporting period, which is tracked on a calendar year basis.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

For the year ended June 30, 2011

**Financial Statement Findings Required by *Government Auditing Standards* – Continued**

**Findings in Accordance with OMB Circular A-133 – Continued**

**11-02 FEDERAL GRANT REPORTING COMPLIANCE (NON-COMPLIANCE) –  
CONTINUED**

*Effect:*

There is an increased possibility the program will not be able to continue to receive funding if compliance requirements are not met.

*Cause:*

There was a delay in processing due to issues with setting up the user account and related password in the ASAP system used for reporting.

*Questioned Costs:* None

*Recommendation:*

Management should ensure their user account is active prior to submitting the quarterly reporting package in order to prevent delays in submission.

*Management's Response:*

The Commission acknowledges the failure to meet quarterly reporting requirement deadlines with respect to the Federal ARRA grant used to fund the SERA Renewable Energy Program. The responsibility for completing forms included in the quarterly reporting package has been transferred to the budget analyst who is directly involved in the other components of the ARRA grant financial tracking process. Additionally, this individual will receive email alerts notifying the Commission of upcoming deadlines (along with the CFO). As a result both the CFO and budget analyst will be responsible for tracking deadlines to ensure compliance with quarterly reporting requirements. The budget analyst will prepare all reporting requirement timely and submit to the CFO for review and final approval. This will create a check and balance within the financial section and that all reporting is being met timely.



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

For the year ended June 30, 2011

**Financial Statement Findings Required by *Government Auditing Standards* – Continued**

**Findings in Accordance with OMB Circular A-133 – Continued**

**11-03 DATA COLLECTION FORM SUBMISSION – NO FILING (SIGNIFICANT DEFICIENCY)**

*All Funding Agencies*

*All Titles*

*All CFDA Numbers*

*Condition:*

During the planning stages of our single audit for fiscal year ending June 30, 2011 we noted the required data collection form (form) for fiscal year ending June 30, 2010 was not submitted to the Federal Audit Clearinghouse (FAC). Upon inquiry of the current year audit team, management contacted the predecessor auditor to determine why the form had not been submitted and then proceeded to submit the form. The submission of the form to the FAC for fiscal year ending June 30, 2010 occurred on September 6, 2011 five months and 6 days after the required deadline of March 31, 2011.

*Criteria:*

Section 320(a) of OMB Circular A-133 requires the reporting package and data collection form to be submitted to the FAC the earlier of 30 days after the reports are received from the auditor or nine months after the end of the audit period.

*Effect:*

The Commission will be assessed as a high-risk auditee for single audit purposes for both the current fiscal year and next fiscal year which requires increased testing of federal award programs by external auditors. Additionally, there is an increased possibility the Commission will receive reduced funding for future programs due to lack of compliance with filing requirements.

*Cause:*

There was a change in auditors from the prior fiscal year to Atkinson & Co. As a result there was reduced communication between the prior auditor and the Commission which caused the completion of the data collection form submission to be overlooked.

*Questioned Costs:* None

*Recommendation:*

Upon completion of the Single Audit reporting package for the current fiscal year, Atkinson & Co. will meet with management and they will complete the data collection form submission together, therefore ensuring timely submission.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

For the year ended June 30, 2011

**Financial Statement Findings Required by *Government Auditing Standards* – Continued**

**Findings in Accordance with OMB Circular A-133 – Continued**

**11-03 DATA COLLECTION FORM SUBMISSION – NO FILING (SIGNIFICANT DEFICIENCY)  
– CONTINUED**

*Management's Response:*

The Commission acknowledges the failure to submit their data collection form by the required deadline. The previous audit team would forward an email to the CFO to review and approval the data collection submission. In the FY2010 audit the previous audit team did not provide the email link for the Commission to review and approve the submission and therefore this filing was never done. The Commission will make plans to meet with members of the current year audit engagement team after finalization of the audit report to complete the process of submitting the data collection form. This will ensure that the audit team and the Commission are aware of the information being submitted is accurate and submitted timely.

**11-07 CONTROLS OVER ASSIGNMENT OF VEHICLES AND DOCUMENTATION OF  
VEHICLE USAGE (SIGNIFICANT DEFICIENCY)**

*Funding Agency:* U.S. Department of Transportation

*Title:* Gas Pipeline Safety and Hazardous Liquid Pipeline Safety

*CFDA Number:* 20.700

*Condition:*

During our work, we observed an excessive number of vehicles used by a Commissioner and certain other noncompliant usage of PRC vehicles. We also observed inconsistent policy and practice for the placement and usage of vehicle travel logs in PRC vehicles. One Commissioner incurred gas card usage associated with 13 different vehicles that were not assigned to the Commissioner over a period of two and a half years. There were no vehicle logs or incomplete documentation in logs for a majority of vehicles. Such logs are necessary to permit further analysis of the propriety of vehicle usage. In connection with out of town travel or other vehicle usage, the following items were noted

- No approved waivers were obtained for out of state vehicle travel tested (3 trips). Approved waivers are required to take a government vehicle out of state.
- A Ford F-250 truck, purchased with Federal Funds was driven by a Commissioner for a period approximating 30 days; this usage was inconsistent with the purposes of the federal program.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

For the year ended June 30, 2011

**Financial Statement Findings Required by *Government Auditing Standards* – Continued**

**Findings in Accordance with OMB Circular A-133 – Continued**

**11-07 CONTROLS OVER ASSIGNMENT OF VEHICLES AND DOCUMENTATION OF VEHICLE USAGE (SIGNIFICANT DEFICIENCY) – CONTINUED**

*Criteria:*

NMAC 1.5.3.1 through 1.5.3.14 establish statutory requirements for state vehicle usage. Internal Revenue regulations 1.61-21 establishes documentation requirements for fringe benefits reporting for usage of government vehicles. The OMB Compliance Supplement establishes allowable and unallowable costs guidelines for federal programs.

*Cause:*

PRC policies and procedures in relation to assignment of vehicles are decentralized; such responsibilities are assigned to Departments. As a result, inconsistent controls and practices and a lack of effective monitoring allowed noncompliant usage of vehicles to occur.

*Effect:*

Fraudulent gas card usage did occur in the case of the one Commissioner resulting in \$8,842 of excessive gas card charges to the State of New Mexico. The PRC is not in compliance with certain requirements for vehicle usage and is unable to completely monitor and analyze the propriety of usage of all vehicles due to lack of records.

*Questioned Costs \$550*

Questioned costs calculated as follows—annual lease value for \$24,000 Ford F-250 vehicle is \$6600 per IRS table multiplied by the fraction of a year used (1/12).

*Recommendation:*

The Commission should create a written gas card policy that complies with the required state guidelines established by the New Mexico Administrative Code and is standardized for all Commissioners and employees of PRC. There should be centralized monitoring of compliance with policies including the filing and maintaining of supporting documents for vehicle and gas card usage.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

For the year ended June 30, 2011

**Financial Statement Findings Required by *Government Auditing Standards* – Continued**

**Findings in Accordance with OMB Circular A-133 – Continued**

**11-07 CONTROLS OVER ASSIGNMENT OF VEHICLES AND DOCUMENTATION OF VEHICLE USAGE (SIGNIFICANT DEFICIENCY) – CONTINUED**

*Management's Response:*

The NMPRC acknowledges the lack of controls concerning the use of state vehicles within the agency. The NMPRC self reported the fraudulent use of the gas card by a commissioner and has immediately moved to revise its vehicle use policy to ensure stricter controls are in place concerning the use of the NMPRC vehicles and the use of the gas cards. The NMPRC has immediately put in place a standardized vehicle log that will be placed in all PRC employee vehicles, set alerts within the Wex Fleet Services system to alert Fleet manager of the PRC of any purchases of anything other than regular unleaded fuel and alerts of more than one fill up within a 24 hour period. Vehicle logs will be turned in to the fleet manager monthly including all receipts of gas and non gas purchase. The NMPRC is in the process of centralizing its entire fleet to manage the assignments of vehicles and the control of all maintenance to be done on all vehicles. The fleet manager will ensure that the gas card invoices are verified and approved by all division directors and will ensure that all purchases on the gas card are for the purpose of the agency.

**Findings in Accordance with 2.2.2. NMAC**

**02-03 CASH DEPOSITS (REPEATED AND MODIFIED) – OTHER**

*Condition:*

We performed walkthroughs of the cash receipts and deposits transaction cycle and noted six out of forty instances where the cash receipt was deposited more than twenty-four hours (excluding weekends and holidays) after the date of receipt.

*Criteria:*

According to State Statute (59A-6-5(c) NMSA 1978), as well as 6-10-3 NMSA, all money received by the divisions must be deposited within twenty-four hours of receipt.

*Effect:*

Cash flow is delayed for undeposited amounts for state purposes.

*Cause:*

At times the Commission receives a large quantity of incoming cash receipts of which it is not feasible to process within a twenty-four hour period.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

For the year ended June 30, 2011

**Findings in Accordance with 2.2.2. NMAC**

**02-03 CASH DEPOSITS (REPEATED AND MODIFIED) – OTHER – CONTINUED**

*Recommendation:*

All money received should be deposited within twenty-four hours. Atkinson & Co., Ltd. recommends that the Commission should consider streamlining the depositing process electronically, providing additional training and guidelines and creating a monitoring function to ensure each division complies with these requirements, or seek a statutory exemption from this requirement through the legislative process. For those divisions where depositing the cash receipts in twenty-four hours is not feasible, the Commission may wish to seek a statutory exemption from the twenty-four hour deposit rule.

*Management's Response:*

The Commission acknowledges the failure to deposit all cash receipts within twenty-four hours due to the large volume of cash receipts received daily by the Insurance Division and Corporations Division. With respect to the Insurance Division, the Agency has submitted a special appropriation request through the fiscal year 2013 budget for implementation of an IT related program. Upon receipt of the appropriation the Agency would transition the Insurance Division from the current manually driven processes on the IDEAL system to an online system. This would allow for electronic tracking of data and for payments to be completed through electronic funds transfer, therefore reducing the amount of manual labor required and decreasing the processing time for cash receipts. If the Agency does not receive the special appropriation, they will submit for a statutory exemption from the twenty-four hour deposit rule. With respect to the Corporations Division, the Agency will transition from a manually driven main-frame system to a web-based system in the next fiscal year.

The new system will allow for the completion and processing of forms electronically and payments to be completed through electronic funds transfers in attempts to reduce the processing time for cash receipts. Additionally, the PRC is having initial discussions with banks in relation to scanning of checks for deposit purposes.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

For the year ended June 30, 2011

**Findings in Accordance with 2.2.2. NMAC**

**11-04 CAPITAL ASSET DISPOSALS – OTHER**

*Condition:*

We performed testing of all capital asset disposals in the current fiscal year for compliance with applicable state requirements. For all four capital asset disposals, the Commission failed to send notification to the State Auditor regarding the disposal.

*Criteria:*

According to Section 13-6-1 B (2) NMSA 1978, a state agency must give notification of the disposal of a capital asset to the State Auditor at least 30 days prior to the expected date of disposal.

*Effect:*

The Commission was not transparent in disclosing capital asset disposals to the State Auditor. As a result, the State Auditor did not have the opportunity to review current year disposals prior to disposition which could lead to the potential inappropriate loss of assets.

*Cause:*

There was confusion amongst Commission accounting staff regarding the guidance related to the disposal of assets through transfer to another state agency. As such, the required notification of the disposal to the State Auditor was not completed.

*Recommendation:*

Management should ensure all accounting staff understands the guidance related to the disposal of assets to ensure the Commission complies with applicable requirements. Additionally, a review should be implemented by management of the notification sent to the State Auditor therefore allowing management to track the status of compliance with disposal requirements and to make certain required notifications are completed.

*Management's Response:*

The Commission acknowledges the failure to notify the State Auditor of the capital asset disposals. In this particular case, four older vehicles were utilized in fire training and it was not a normal disposal. All disposals were run through the Financial Specialist within the Budget and Finance Bureau who would submit the required notifications with just their signature. A new process will be implemented that will require all notifications to the State Auditor or any other agency for disposals to be reviewed and signed by the ASD Director/CFO to ensure notifications are being completed and sent in a timely manner.

State of New Mexico  
Public Regulation Commission

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

For the year ended June 30, 2011

**Findings in Accordance with 2.2.2. NMAC – Continued**

**11-05 USE OF STATE ISSUED GAS CREDIT CARDS – OTHER**

*Condition:*

In response to concerns brought to the external auditor’s attention from management regarding the potential improper use of a gas credit card by a Commissioner, we performed testing of five Commissioners’ and 88 employees’ gas card usage for all transaction activity during fiscal year 2011 to identify unusual or unauthorized transactions and compliance with related requirements. A summary of test descriptions and results is indicated in the table below.

*Condition:*

Ref.	Test Description	Number of instances	Number of persons identified	Associated Dollar Amount
1	Multiple gas fill-ups within an hour indicating a second non-authorized vehicle may have been filled up using the gas credit card.	43	1	\$1,976
2	Purchases of super-unleaded or unleaded plus fuel	229	20	\$9,750
3	Non-fuel transactions not supported by a receipt.	95	24	\$2,143
4	Purchase of fuel that exceeded the fuel tank capacity	1	1	\$413
5	Lack of documentation in the vehicle travel log supporting a vehicle was driven on the day a fuel purchase was completed per review of the credit card activity.	1056	26	\$45,814
6	Purchases of fuel exceeding number of days within a given month	3	1	36 in April \$266 60 in May \$1,579 45 in June \$ 698

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

For the year ended June 30, 2011

**Findings in Accordance with 2.2.2. NMAC – Continued**

**11-05 USE OF STATE ISSUED GAS CREDIT CARDS – OTHER – CONTINUED**

*Criterion:*

With respect to condition number 2 and 3, NMAC 1.5.4.12 (GSD 88-102) Purchase of Petroleum Products with State of New Mexico Credit Cards states that only the following purchases are permitted with a NM State credit card a) regular gasoline, b) unleaded gasoline, c) diesel fuel, d) lubrication, e) motor oil, f) car wash, and g) emergency purchases not exceeding \$100 in total.

With respect to condition number 2, NMAC 1.5.4.9 states the vehicle operator is responsible for insuring that purchases of fuel are made at the best obtainable price and that full purchases are fully documented.

With respect to condition 3, NMAC 1.5.3.19 states that all state agencies and authorized drivers are required to use the GSD/TSD contracted fuel credit card for authorized purchases. With respect to condition 5, NMAC 1.5.3.1-14 (GSD 90-202) and .1-14 Internal Revenue Code Regulations 1.61-21 and publication 15-B provides requirements and procedures to report transportation fringe benefits.

The criterion for conditions 1, 4, 5, 6 referenced above in the table above was developed to identify unreasonable fuel purchases as follows:

- 1) Purchases of gasoline by one individual for one vehicle generally do not occur within an hour of each other.
- 4) Purchase of gallons of fuel by one individual for one vehicle generally do not exceed the fuel capacity of that vehicle
- 5) Documentation in the vehicle log should correlate with real-time gas reports provided by the credit card company.
- 6) Purchases of fuel within a given month for one individual for one vehicle should not generally exceed the number of days in the month.

*Effect:*

Unauthorized purchases of petroleum and non-petroleum product in the amount \$32,259 may have occurred during fiscal year 2011. Unauthorized purchases of super unleaded or unleaded plus of \$9,750 did occur during fiscal year 2011. There is an increased possibility that abuse could occur through the use of state issued credit cards.



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

For the year ended June 30, 2011

**Findings in Accordance with 2.2.2. NMAC – Continued**

**11-05 USE OF STATE ISSUED GAS CREDIT CARDS – OTHER – CONTINUED**

*Cause:*

The Commission's policy regarding the use of gas cards and related documentation and support for use of Commission owned vehicles is implemented at the Division level. As such there is no standardized policy or monitoring process throughout the entire agency to detect unusual gas card transactions.

The Commission was not aware that Super Unleaded and Unleaded Plus purchase were not allowed per NMAC 1.5.4.12 (GSD 88-102) Purchase of Petroleum Products with State of New Mexico Credit Cards.

*Recommendation:*

The Commission should create a written gas card policy that complies with the required state guidelines established by the New Mexico Administrative Code and is standardized for all Commissioners and employees of the PRC. The policy should require a review of all receipts that pertain to gas credit card transactions. Additionally, the Commission should develop and implement a formal monitoring process monitoring to ensure compliance with the newly developed written gas card policy that incorporates comparison between the vehicle travel log activity and the real-time gas reports provided online by the gas credit card company.

*Management's Response:*

The Commission acknowledges by self reporting to our auditors and respective agencies that there were some suspicious charges present on the Commission's gas card reports. Upon reporting the suspicious charges the Commission moved to immediately implement gas card email alerts for any employee who purchases fuel twice in one day and for alerts on any employee who purchases anything other than regular unleaded or diesel. The Commission has also implemented training to all employees who are allowed to use the gas card. The Commission is also requiring all divisions to review the gas card invoice for accuracy. The Commission is immediately revising and standardizing the vehicle logs that will be required to be placed in every vehicle owned by the Commission. The Commission is also revising its vehicle use policy to ensure that all required state guidelines are addressed and met. Additionally, the Commission notes that in its revision of policies for gas cards, it has discovered that gas station records may, in certain cases, not give full details of actual no gas transactions leading to apparent multiple gas purchases when such did not occur.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

For the year ended June 30, 2011

**Findings in Accordance with 2.2.2. NMAC – Continued**

**11-06 STATE VEHICLES AND COMMUTING – OTHER**

*Condition:*

During our audit, as part of procedures performed in connection with gas card usage and reimbursements transactions, we considered PRC's compliance with tax documentation requirements for vehicles used for commuting purposes. Those procedures identified situations in which it was reasonable that commuting from home with PRC vehicles was occurring. We noted that the PRC lacks issued policies for commuting with government vehicles. There are no records in relation to business and personal use needed for tax reporting.

*Criteria:*

The Internal Revenue Service Regulations 1.61-21 for fringe benefit reporting including commuting require the documentation of business and personal use to support reporting of fringe benefit income. Through inquiry IRS has confirmed the applicability of these rules to government usage of vehicles. Commissioners traveling from home districts to state meetings are generally not commuting per IRS Case Law. All taxable and nontaxable travel in all instances must be documented.

*Cause:*

There was a lack of established policies setting forth requirements and supporting documentation that is needed in this area.

*Effect:*

The PRC is underreporting fringe benefit income to employees and Commissioners who are commuting in a state vehicle by an undetermined amount. Documentation supporting the usage of state vehicles for tax purposes is not adequate to support fringe benefit income reporting. Through lack of records, the PRC is not able to monitor the usage of government vehicles in relation to commuting.

*Recommendation:*

We recommend that the PRC create policies defining the appropriate use of government vehicles for commuting and to require documentation of the business and personal usage of government vehicles. Such policies should be monitored for compliance periodically and full tax reporting implemented as appropriate.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

For the year ended June 30, 2011

**Findings in Accordance with 2.2.2. NMAC – Continued**

**11-06 STATE VEHICLES AND COMMUTING – OTHER – CONTINUED**

*Management Response:*

The PRC has revised its vehicle use policy to address several issues related to vehicle use and the use of the Wright Express gas card. The Commission has created a standardized vehicle log that will be required to be in every vehicle owned by the Commission which will include all employees and Commissioners. This log will track the mileage and gas usage for each vehicle. These logs will be turned into the ASD Fleet Manager who will reconcile the vehicle logs to the Wright Express gas card invoice monthly to ensure that all receipts and usage are being accounted for. The new log will also track any mileage for commuting purposes that will be reported on a W-2 issued to each employee with commuting mileage yearly.

**11-08 VIOLATION REFERRAL – OTHER**

*Condition:*

PRC staff discovered information and transactions that raised concerns about excessive and possibly fraudulent gas card charges by a Commissioner on approximately June 15, 2011. These concerns and corresponding information were self reported to the Attorney General on June 21, 2011 and then later to the State Auditor. The date of notification of the State Auditor was August 2, 2011. Based on this timing from June 21 to August 2, there was unreasonable delay in notifying the State Auditor of events in violation of State Statute.

*Criteria:*

12-6-6 NMSA 1978 requires Agencies as a matter of State law to immediately notify the State Auditor of fraudulent activity or transactions.

*Cause:*

Initial instructions by a Commissioner to staff were to report this matter to the Attorney General.

*Effect:*

Information was withheld from the State Auditor for the noted period of time. The PRC is in violation of a state statute in not reporting wrongful activity as soon as possible. Appropriate investigations and remedies may have been unreasonably delayed in this matter.

*Recommendation:*

PRC should reemphasize this requirement and its policies and procedures to staff with direction to staff to give highest priority to the following of State statutes.

State of New Mexico  
Public Regulation Commission

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

For the year ended June 30, 2011

**Findings in Accordance with 2.2.2. NMAC – Continued**

**11-08 VIOLATION REFERRAL – OTHER – CONTINUED**

*Management Response:*

The NMPRC acknowledges that the notification to the State Auditor was sent later than the notification to the Attorney General's Office. The Chief of Staff sent notification to the Attorney General's Office without realizing that notification needed to be sent to the State Auditor as well. Upon researching the statutes and determining that notification had to be sent to the State Auditor, the NMPRC immediately sent notification to the State Auditor. Upon discovery of instances of potential fraud found within the PRC, notification will be sent to the State Auditor immediately.

State of New Mexico  
Public Regulation Commission

**FINANCIAL STATEMENT PREPARATION**

June 30, 2011

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

**EXIT CONFERENCE**

An exit conference was held on November 28, 2011, to discuss the audit. The following individuals were in attendance:

**State of New Mexico – Public Regulation Commission**

Ben L. Hall, Commissioner  
Jason A. Marks, Commissioner  
Johnny Montoya, Chief of Staff  
Matthew Lovato, CFO/Acting Administrative Services Director

**Independent Auditor – Atkinson & Co., Ltd.**

Martin Mathisen, CPA, CGFM, Audit Director  
James Hartogensis, CPA, CGFM, Senior Manager

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