



**STATE OF NEW MEXICO  
PUBLIC REGULATION COMMISSION**

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

**June 30, 2012**

atkinson

PRECISE. PERSONAL. PROACTIVE.

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State of New Mexico  
Public Regulation Commission

**OFFICIAL ROSTER**

June 30, 2012

**COMMISSIONERS**

Jason A. Marks	Commissioner
Patrick H. Lyons	Chairman
Douglas J. Howe	Commissioner
Theresa Becenti-Aguilar	Vice-Chairman
Ben L. Hall	Commissioner

**ADMINISTRATIVE OFFICIALS**

Johnny Montoya	Chief of Staff
Matthew Lovato	Director, Administrative Services / Chief Financial Officer
Jim Williamson	Director, Consumer Relations
John Franchini	Superintendent of Insurance
Patrick Lopez	Director, Legal
Vacant	Director, Transportation
Dwight Lamberson	Director, Utilities
Robert Parker	Deputy Chief of Staff, Office of General Counsel
William Hermann	Director, Hearing Examiners



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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## 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, 2012, 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, 2012, 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.



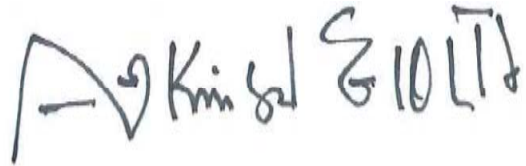
As discussed in Note B1, the financial statements of the Commission are intended to present the financial position and changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico that is attributable 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, 2012, 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, 2012, 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 funds of the Commission as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 14, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
December 14, 2012

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

June 30, 2012

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, 2012. 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 U.S. generally accepted accounting principles (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 2.2.2.10 A. (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.

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

June 30, 2012

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

The focus of the Statement of 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.

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 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 22 through 46 of this report.

State of New Mexico  
Public Regulation Commission

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

June 30, 2012

**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, 2012</u>	<u>June 30, 2011</u>	<u>Change</u>
<b>ASSETS</b>			
<i>Government activities</i>			
Current and other assets	\$ 72,878,563	\$ 78,518,079	\$ (5,639,516)
Capital assets	<u>2,754,643</u>	<u>2,822,346</u>	<u>(67,703)</u>
Total assets	<u>\$ 75,633,206</u>	<u>\$ 81,340,425</u>	<u>\$ (5,707,219)</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 26,603,726	\$ 20,883,972	\$ 5,719,754
Non-current liabilities	<u>41,984,328</u>	<u>35,344,518</u>	<u>6,639,810</u>
Total liabilities	<u>68,588,054</u>	<u>56,228,490</u>	<u>12,359,564</u>
<b>NET ASSETS</b>			
Invested in capital assets	2,754,643	2,822,346	(67,703)
Restricted for special projects	4,820,917	22,829,333	(18,008,416)
Unrestricted	<u>(530,408)</u>	<u>(539,744)</u>	<u>9,336</u>
Total net assets	<u>7,045,152</u>	<u>25,111,935</u>	<u>(18,066,783)</u>
Total liabilities and net assets	<u>\$ 75,633,206</u>	<u>\$ 81,340,425</u>	<u>\$ (5,707,219)</u>

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

June 30, 2012

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - CONTINUED**

**Discussion of Statement of Net Assets**

Net assets are derived by deducting total liabilities from total assets. Net assets decreased by \$18,066,783.

Current assets consist mostly of investments with the State Treasurer of \$30,304,231; other investments of \$37,617,696; amounts due from external parties (agency funds) of \$3,272,426; grants receivable of \$1,145,282; due from the State General Fund of \$529,238 and amounts due from other state agencies of \$9,690.

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 decreased due to decreases in investments held with the State Treasurer reported by the Patient Compensation Fund.

**Capital Asset and Debt Administration**

The decrease in capital assets of \$67,703 is due to depreciation expense recorded in the current fiscal year, partially offset by new purchases of machinery and equipment of \$331,967.

**Liabilities**

Current liabilities of \$26,603,726 consists primarily of accounts payable \$731,407, i.e., money that the Commission is obligated to pay; accrued salaries and benefits payable \$411,963; due to external parties (agency funds) \$130,894; due to the State General Fund \$5,281,370; and other liabilities of \$174,823. The State Investment Pool is in overdraft in the amount of \$7,281,428. The estimated current portion of patients' claims payable is \$12,245,565.

**Long-Term Debt**

At the end of the current fiscal year, the Commission had total long-term debt outstanding of \$41,984,328 of which primarily consist 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, 2012

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - CONTINUED**

**Commission's Statement of Activities**

<b>STATEMENTS OF ACTIVITIES</b>	June 30, 2012	June 30, 2011	Change
<i>Government activities</i>			
Operating grants and contributions	\$ 1,743,801	\$ 1,574,728	\$ 169,073
Investment income	1,464,820	4,307,534	(2,842,714)
Charges for services	23,245,438	22,649,019	596,419
General Fund appropriations	7,771,200	9,521,300	(1,750,100)
Other financing sources	7,148,874	6,318,265	830,609
Other	(3,062)	-	(3,062)
 Total revenue	 41,371,071	 44,370,846	 (2,999,775)
 Program expenses	 51,002,841	 28,646,650	 22,356,191
Other financing uses	8,435,013	9,279,451	(844,438)
 Total expense	 59,437,854	 37,926,101	 21,511,753
 Change in net assets	 (18,066,783)	 6,444,745	 (24,511,528)
 Net assets, beginning of year	 25,111,935	 18,667,190	 6,444,745
 Net assets, end of year	 <u>\$ 7,045,152</u>	 <u>\$ 25,111,935</u>	 <u>\$ (18,066,783)</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 decreased, in the aggregate, the Commission's net assets by \$18,066,783 during the year. In the government-wide financials, revenues from other financing sources increased \$830,609 due to a related increase in transfers into the General Fund from agency funds. The transfers served to reimburse the costs of insurance policy and public safety programs provided in the General Fund. There was an increase in other financing uses of \$844,438 due to a lower amount of reversions required to be transferred to the State General Fund offset by an increase in grants to other organizations. Program expenses increased \$21,511,753 primarily due to changes in estimates to the Patients Compensation Fund claim liability from the prior year. Additionally, a decrease in appropriations of \$1,256,100 also occurred in FY2012.

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

June 30, 2012

**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 \$58,520,402, for a net decrease over the prior fiscal period of \$11,413,986. This decrease is primarily in the Patients' Compensation Fund which decreased by \$10,118,005 as a result of an increase in expenditures due to a one time class action lawsuit settlement. The non-major governmental funds and Insurance Operations Fund increased by \$1,821,692 and decreased \$292,919 respectively. The General Fund remained at zero.

The General Fund revenues decreased \$216,284 as compared to the previous year due to a decrease in other revenue fees. Other financing sources decreased \$1,750,100 as a result of decreases in general fund appropriations from State Legislature. Expenditures also decreased \$453,328 as a result of a decrease in appropriations and overall spending by the agency.

The Patients' Compensation Fund fee revenues decreased \$2,069,736 primarily due to a decrease in investment income of \$2,839,843, which was partially offset by an increase in other fee revenue of \$770,107 due to an increase in annual surcharges levied and collected by healthcare providers. Expenditures increased \$16,271,504 due to increase in claim expenditures in fiscal year 2012 in comparison with fiscal year 2010 with a one-time class action lawsuit settlement.

The Insurance Operations Fund revenues increased in Fiscal Year 2012 by \$391,015 as compared to the previous year resulting from an increase in fees. Other financing uses decreased in Fiscal Year 2012 by \$577,828 due to a reduction in the amount transferred out to cover operations and an increase in the amount of \$112,005 required to be transferred to the State General Fund.

**General Fund Budgetary Highlights**

In the General Fund the final budgeted expenditures increased from the prior fiscal year by \$406,079 due to normal variances in operations. The Commission has continued to manage its operations meeting all statutory requirements that are set upon this Commission. Actual expenditures were a favorable variance of \$4,523,699 as compared to the final budgeted amount.



## MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

June 30, 2012

### THE COMMISSION'S FUNDS - CONTINUED

#### **Currently Known Facts**

The New Mexico Public Regulation Commission (Commission) in Fiscal Year 2012 continued to achieve all statutorily required functions of the agency and was able to reduce overall operating expenditures. The Commission increased transparency by implementing a new website with more information available to the public. The Commission is now providing webcasting with audio streaming which allows the public to view the Commission open meetings. The Commission implemented a new vehicle policy that will ensure accountability in the use of all Commission vehicles. The Commission is committed to providing staff training to ensure that staff has the required tools to provide accurate and reliable information to the Commissioners in order to make sound decisions in rule and rate making processes.

In Fiscal Year 2012, the Insurance Division received full accreditation with the National Association of Insurance Commissioners (NAIC). The NAIC Financial Regulation and Accreditation Standards program is a success for the Insurance Division as state regulators to hold companies accountable to policyholders through strict solvency standards and effective implementation of those standards.

In Fiscal Year 2012, the Insurance Division was successful in negotiating a one-time settlement in a class action lawsuit in the Patient Compensation Fund which settled over 35 cases saving millions of dollars to consumers.

On November 6, 2012, a statewide general election was held. There were two amendments to the New Mexico State Constitution approved by voters which directly impact the Commission. Constitutional Amendment 3 removed the authority to regulate and charter corporations from the Commission. Constitutional Amendment 4 removed the authority to regulate insurance companies from the Commission. The impact of these constitutional amendments to the Commission has not yet been determined.

#### **Requests for Information**

This financial report is designed to provide citizens, taxpayers, customers, legislators, 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 335 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, 2012

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Investments, State Treasurer Investment Pool	\$ 30,304,231
Investments	37,617,696
Due from external parties-agency funds	3,272,426
Due from state general fund	529,238
Due from other agencies	9,690
Due from Federal government	<u>1,145,282</u>
 Total current assets	 72,878,563
 Capital assets, net	 <u>2,754,643</u>
 Total assets	 <u>75,633,206</u>
<b>LIABILITIES</b>	
Investments, State Treasurer Investment Pool-overdraft	7,323,096
Accounts payable	731,407
Accrued payroll	411,963
Deferred revenue	304,608
Other liabilities	174,823
Due to external parties-agency funds	130,894
Due to State General Fund	5,281,370
Due in one year	<u>12,245,565</u>
 Total current liabilities	 26,603,726
 Non-current liabilities	
Due in more than one year	<u>41,984,328</u>
 Total liabilities	 <u>68,588,054</u>
<b>NET ASSETS</b>	
Investment in capital assets	2,754,643
Restricted for special purposes	4,820,917
Unrestricted (deficit)	<u>(530,408)</u>
 Total net assets	 <u>\$ 7,045,152</u>

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

State of New Mexico  
Public Regulation Commission

**STATEMENT OF ACTIVITIES**

For the year ended June 30, 2012

	Policy and Regulation	Public Safety	Agency Support	Governmental Activities
PROGRAM EXPENSES	\$ 42,982,555	\$ 5,263,516	\$ 2,756,770	\$ 51,002,841
PROGRAM REVENUES				
Operating grants and contributions	165,191	1,578,610	-	1,743,801
Charges for services	23,245,438	-	-	23,245,438
Net program revenue (expense)	\$ (19,571,926)	\$ (3,684,906)	\$ (2,756,770)	(26,013,602)
GENERAL REVENUES				
Transfers - General Fund appropriations				7,771,200
Transfers - State General Fund reversions - 2012 FY				(5,556,129)
Grants to local governments				(2,878,884)
Investment income				1,464,820
Loss on disposal of capital assets				(3,062)
Transfers in from external parties-agency funds				7,148,874
Total general revenues				7,946,819
Change in net assets				(18,066,783)
Net assets, beginning of year				25,111,935
Net assets, end of year				\$ 7,045,152

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

State of New Mexico  
Public Regulation Commission

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

June 30, 2012

	<u>General Fund- 55000</u>	<u>Patient's Compensation Fund- 23500</u>	<u>Insurance Operations Fund- 03900</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Current Assets					
Investments, state treasurer investment pool	\$ -	\$ 12,372,013	\$ 11,782,594	\$ 6,149,624	\$ 30,304,231
Investments	-	37,617,696	-	-	37,617,696
Due from other funds	7,646,706	-	-	122,900	7,769,606
Due from external parties-agency funds	-	-	361,552	2,910,874	3,272,426
Due from state general fund	-	529,238	-	-	529,238
Due from other agencies	6,342	3,334	-	14	9,690
Due from federal government	1,090,913	-	-	54,369	1,145,282
	<u>1,090,913</u>	<u>-</u>	<u>-</u>	<u>54,369</u>	<u>1,145,282</u>
Total assets	<u>\$ 8,743,961</u>	<u>\$ 50,522,281</u>	<u>\$ 12,144,146</u>	<u>\$ 9,237,781</u>	<u>\$ 80,648,169</u>
<b>LIABILITIES</b>					
Current Liabilities					
Accounts payable	\$ 584,157	\$ 111,212	\$ -	\$ 36,038	\$ 731,407
Accrued payroll	397,690	2,817	-	11,456	411,963
Investments, state treasurer investment pool-overdraft	7,281,428	-	-	41,668	7,323,096
Deferred revenue	-	-	-	304,608	304,608
Other liabilities	-	-	-	174,823	174,823
Due to other funds	122,901	522,401	4,576,566	2,547,738	7,769,606
Due to external parties-agency funds	130,894	-	-	-	130,894
Due to State General Fund	226,891	-	5,054,479	-	5,281,370
	<u>226,891</u>	<u>-</u>	<u>5,054,479</u>	<u>-</u>	<u>5,281,370</u>
Total liabilities	8,743,961	636,430	9,631,045	3,116,331	22,127,767
<b>FUND BALANCES</b>					
Restricted:					
Special Revenue Funds	-	49,885,851	2,513,101	5,926,285	58,325,237
Committed:					
Reproduction Fund	-	-	-	195,165	195,165
	<u>-</u>	<u>-</u>	<u>-</u>	<u>195,165</u>	<u>195,165</u>
Total fund balances	<u>-</u>	<u>49,885,851</u>	<u>2,513,101</u>	<u>6,121,450</u>	<u>58,520,402</u>
Total liabilities and fund balances	<u>\$ 8,743,961</u>	<u>\$ 50,522,281</u>	<u>\$ 12,144,146</u>	<u>\$ 9,237,781</u>	<u>\$ 80,648,169</u>

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, 2012

Fund balance - total governmental funds		\$ 58,520,402
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Governmental capital assets	10,192,570	
Accumulated depreciation	<u>(7,437,927)</u>	
		2,754,643
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		(53,504,320)
Compensated absences		<u>(725,573)</u>
Net assets of governmental activities (Statement of Net Assets)		<u>\$ 7,045,152</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**

For the year ended June 30, 2012

	General Fund - 55000	Patients' Compensation Fund- 23500	Insurance Operations Fund- 03900	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Insurance tax	\$ -	\$ -	\$ -	\$ 1,184,045	\$ 1,184,045
Other fees	-	12,187,956	9,338,127	535,310	22,061,393
Bond proceeds	19,380	-	-	-	19,380
Investment income	-	1,463,966	-	854	1,464,820
Grant funds	1,559,230	-	-	165,191	1,724,421
<b>Total revenues</b>	<b>1,578,610</b>	<b>13,651,922</b>	<b>9,338,127</b>	<b>1,885,400</b>	<b>26,454,059</b>
<b>EXPENDITURES</b>					
Current:					
Personal services	12,258,752	42,420	-	148,649	12,449,821
Employee benefits	4,762,137	15,474	-	-	4,777,611
In-state travel	153,917	-	-	-	153,917
Maintenance and repairs	133,088	214	-	-	133,302
Supplies	398,206	514	-	-	398,720
Contractual services	1,188,540	268,841	-	91,916	1,549,297
Operating costs	1,537,685	22,919,864	-	20,248	24,477,797
Out-of-state travel	80,674	-	-	-	80,674
Capital outlay	331,967	-	-	-	331,967
<b>Total expenditures</b>	<b>20,844,966</b>	<b>23,247,327</b>	<b>-</b>	<b>260,813</b>	<b>44,353,106</b>
(Deficiency) excess of revenues over expenditures	(19,266,356)	(9,595,405)	9,338,127	1,624,587	(17,899,047)
<b>OTHER FINANCING SOURCES (USES)</b>					
General Fund appropriations	7,771,200	-	-	-	7,771,200
Reversions to the State General Fund	(501,650)	-	(5,054,479)	-	(5,556,129)
Grants to local governments	-	-	-	(2,878,884)	(2,878,884)
Operating transfers in	11,996,806	-	-	2,911,261	14,908,067
Operating transfers out	-	(522,400)	(4,576,567)	(2,660,226)	(7,759,193)
<b>Total other financing sources (uses)</b>	<b>19,266,356</b>	<b>(522,400)</b>	<b>(9,631,046)</b>	<b>(2,627,849)</b>	<b>6,485,061</b>
Net change in fund balances	-	(10,117,805)	(292,919)	(1,003,262)	(11,413,986)
FUND BALANCES - beginning of year	-	60,003,656	2,806,020	7,124,712	69,934,388
FUND BALANCES - end of year	<u>\$ -</u>	<u>\$ 49,885,851</u>	<u>\$ 2,513,101</u>	<u>\$ 6,121,450</u>	<u>\$ 58,520,402</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, 2012

Net change in fund balances - total governmental funds \$ (11,413,986)

Amounts reported for Governmental Activities in the Statement of Activities  
are different because:

Loss on disposal of capital assets	(3,062)	
Capital outlay	331,967	
Depreciation expense	<u>(396,608)</u>	
Change in capital assets		(67,703)
Change in Patients' Compensation Fund Liabilities		(6,734,802)
Change in compensated absences		<u>149,708</u>
Change in net assets of governmental activities (Statement of Activities)		<u>\$ (18,066,783)</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, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
General fund appropriation	\$ 7,771,200	\$ 7,771,200	\$ 7,771,200	\$ -
Other financing sources	13,262,500	13,452,500	11,996,806	(1,455,694)
Federal funds	543,100	4,099,965	1,559,230	(2,540,735)
Bond proceeds	-	-	19,380	19,380
	21,576,800	25,323,665	21,346,616	(3,977,049)
Expenditures:				
Personal services	17,638,500	19,185,110	17,020,889	2,164,221
Contractual services	811,500	1,777,516	1,188,540	588,976
Operating costs	3,126,800	4,406,039	2,635,537	1,770,502
	21,576,800	25,368,665	20,844,966	4,523,699
Excess (deficiency) of revenues over expenditures	-	(45,000)	501,650	546,650
Prior year fund balance required to balance budget	-	45,000	-	(45,000)
	-	-	501,650	\$ 501,650
Total	\$ -	\$ -	501,650	\$ 501,650
Reversions			(501,650)	
Change in fund balance per GAAP			\$ -	

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, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Doctor's surcharge	\$ -	\$ -	\$ 12,187,956	\$ 12,187,956
Investment Income	-	-	1,463,966	1,463,966
Other fees	-	-	-	-
Total revenues	-	-	13,651,922	13,651,922
Expenditures:				
Personal services	65,700	65,700	57,894	7,806
Contractual services	570,300	570,300	268,841	301,459
Operating costs	12,047,200	23,347,200	22,920,592	426,608
Total expenditures	12,683,200	23,983,200	23,247,327	735,873
Excess (deficiency) of revenues over expenditures (prior year fund balance required to balance budget)	(12,683,200)	(23,983,200)	(9,595,405)	<u>\$ 14,387,795</u>
Fund balance carryforward	<u>13,205,600</u>	<u>24,505,600</u>		
Total	<u>\$ 522,400</u>	<u>\$ 522,400</u>		
Reversions			<u>(522,400)</u>	
Change in fund balance per GAAP			<u>\$ (10,117,805)</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, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other fees	\$ -	\$ -	\$ 9,338,127	\$ 9,338,127
Other financing sources	-	-	-	-
Total revenues	-	-	9,338,127	9,338,127
Expenditures:				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Other financing uses	5,026,200	5,026,200	4,576,567	449,633
Total expenditures	5,026,200	5,026,200	4,576,567	449,633
Excess (deficiency) of revenues over expenditures (prior year fund balance required to balance budget)	(5,026,200)	(5,026,200)	4,761,560	\$ 9,787,760
Fund balance carryforward	5,026,200	5,026,200		
Total	\$ -	\$ -		
Reversions			(5,054,479)	
Change in fund balance per GAAP			\$ (292,919)	

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, 2012

	<u>Agency Funds</u>
<b>ASSETS</b>	
Investments, state treasurer investment pool	\$ 70,924,623
Cash in banks - ancillary receivership	628,272
Securities deposits	451,450,790
Due from external parties	130,894
Due from other funds	<u>15,639,233</u>
Total assets	<u><u>\$ 538,773,812</u></u>
<b>LIABILITIES</b>	
Due to State General Fund	\$ 20,313,119
Due to other funds	15,639,233
Due to external parties	3,272,426
Due to other state agencies	170,047
Undistributed receipts	4,149,532
Accounts payable	43,150,393
Securities held in trust	<u>452,079,062</u>
Total liabilities	<u><u>\$ 538,773,812</u></u>

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

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012

### NOTE A – HISTORY AND FUNCTION

The State of New Mexico Public Regulation Commission (Commission or NMPRC), 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 U.S. generally accepted accounting principles (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, 2012

**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, 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, 2012

**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). The fund is non-reverting.

*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, 2012

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

2. Basic Financial Statements – Continued

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. Revenues collected for future periods are deferred until available. All other revenues are recognized when they are received and are not susceptible to accrual.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**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, 2012

**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, 2012

**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, 2012

**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, 2012.

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 \$58,325,237 as of June 30, 2012.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**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 \$195,165 as of June 30, 2012.

***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, 2012.

***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, 2012.

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, 2012

**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, 2012.

**Unrestricted Deficit** – represents the deficit of total assets over total liabilities and net assets invested in capital assets at June 30, 2012.

**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 \$4,820,917 at June 30, 2012.

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, 2012

**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**

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

General Fund Investment Pool (GFIP):	<u>\$ 93,905,758</u>
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The circumstances recorded in Note P raise a concern regarding the accuracy of the Commission's share of the GFIP.

The Commission has adopted policies and procedures to mitigate the risk of misstatement in the Commission's interest in the state general fund investment pool. These include:

The Commission does a batch process for all cash that is collected and deposited. These batches are generated by staff within each division that collects revenues. The batches are verified by the supervisors of each division and then sent down to Administrative Services Division (ASD) for deposit. The batches are then verified by ASD Staff to ensure that the checks in each batch match the batch report. The ASD supervisor will then verify deposit entered into SHARE to ensure that the amount equals for each batch and are entered into correct fund and account documentation is retained for all transactions. Expenditure support is retained for all transactions. Due to these compensating controls, the Commission believes the value of its share of the GFIP at June 30, 2012 materially approximates \$93,905,758. Adjustments, if any, that might be required are not known currently.

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

June 30, 2012

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

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

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

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

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

	Book Balance	Treasurer Balance
General Fund		
Operating Account	\$ (7,281,428)	\$ (7,281,428)
Special Revenue Funds		
Patients Compensation Fund	12,372,013	12,372,013
Insurance Operations Fund	11,782,594	11,782,594
Fire Protection Grant Fund	60,904	60,904
Firefighter's Use Fund	947,815	947,815
Insurance Examination Fund	1,000	1,000
Insurance Licensing Continuing Ed Fund	829,829	829,829
Insurance Fraud Fund	1,243,931	1,243,931
Fire Safe Cigarette and Fire Protection Fund	129,750	129,750
Reproduction Fund	384,765	384,765
Title Insurance Maintenance Fund	666,022	666,022
ARRA Renewable Energy	(41,668)	(41,668)
Pipeline Safety Fund	1,885,608	1,885,608
Total Special Revenue Funds	30,262,563	30,262,563

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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

Agency Funds		
Fire Fighter Survivor Fund	56,870	56,870
Fire Protection Fund	54,185,404	54,185,404
Motor Transportation	18,311	18,311
Corporation Fees Fund	21,189	21,189
Special Corporation Fees Fund	27	27
Franchise Tax Fund	825	825
Utility Fees Fund	-	-
Pipeline Fees Fund	500	500
Insurance Suspense Fund	16,640,897	16,640,897
Qwest Performance Assurance	600	600
	<u>70,924,623</u>	<u>70,924,623</u>
Total Agency Funds	<u>70,924,623</u>	<u>70,924,623</u>
Total Investments, State Treasurer	<u>\$ 93,905,758</u>	<u>\$ 93,905,758</u>

*Cash in Banks -Ancillary Receivership.* The following is a listing of the Commission's Ancillary Receivership cash balances on deposit at a local financial institution. 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, 2012:

Century Bank of Santa Fe	<u>\$ 628,272</u>
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There were no reconciling items on this bank account.

The Commission has entered into a custodial agreement with the above financial institution 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, 2012, the State Treasurer reported that the cash account was 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.



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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

Security deposits recorded in the Trust Funds with the Superintendent of Insurance amounting to \$37,617,696 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.

The value of the investments maintained at the State Investment Council External Pooled Investment Funds are as follows at June 30, 2012:

	Market Value
Core Bond Fund	\$ 24,983,859
Non US Developed	2,157,747
Non US Emerging Markets	2,051,939
Large Cap Index	6,650,108
Mid/Small Cap	1,774,043
	<u>\$ 37,617,696</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.

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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**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 financial 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.

	Due From Other Funds				Total
	108900	113000	550000	578000	
	Fire Safer Cigarette Fire Protection	Insurance Examination	General Fund	Fire Protection Agency Fund	
039000 Insurance Operation Fund	\$ -	\$ -	\$ 4,576,567	\$ -	\$ 4,576,567
235000 Patients' Compensation Fund	-	-	522,400	-	522,400
375000 Insurance Fraud	-	-	1,189,652	-	1,189,652
377000 Pipeline Safety	-	-	734,123	-	734,123
477000 Reproduction Fund	-	-	189,600	-	189,600
508000 Insurance Suspense Agency Fund	-	-	-	15,639,233	15,639,233
550000 General Fund	122,513	387	-	-	122,900
860000 Title Insurance Maintenance	-	-	434,364	-	434,364
<b>Total</b>	<b>\$ 122,513</b>	<b>\$ 387</b>	<b>\$ 7,646,706</b>	<b>\$ 15,639,233</b>	<b>\$ 23,408,839</b>

	Due to External Parties			Total
	550000	508000	578000	
	General Fund	Insurance Suspense Agency Fund	Protection Agency Fund	
039000 Insurance Operation Fund	\$ -	\$ 361,552	\$ -	\$ 361,552
578000 Fire Protection Agency Fund	130,894	-	-	130,894
569000 Fire Protection Fund	-	-	2,910,874	2,910,874
<b>Total</b>	<b>\$ 130,894</b>	<b>\$ 361,552</b>	<b>\$ 2,910,874</b>	<b>\$ 3,403,320</b>

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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE E – CAPITAL ASSETS**

The capital asset activity for the year ended June 30, 2012 is as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Governmental Activities				
Depreciable Assets				
Land improvements	\$ 947,900	\$ 10,272	\$ -	\$ 958,172
Buildings	2,318,764	15,023	-	2,333,787
Machinery and equipment	6,601,417	306,672	(148,678)	6,759,411
Building improvements	141,200	-	-	141,200
Total at historical cost	10,009,281	331,967	(148,678)	10,192,570
Accumulated depreciation				
Land improvements	943,623	1,072	-	944,695
Buildings	941,992	47,439	-	989,431
Machinery and equipment	5,232,132	345,273	(145,616)	5,431,789
Building improvements	69,188	2,824	-	72,012
Total accumulated depreciation	7,186,935	396,608	(145,616)	7,437,927
Capital assets, net	<u>\$ 2,822,346</u>	<u>\$ (64,641)</u>	<u>\$ (3,062)</u>	<u>\$ 2,754,643</u>

Depreciation expense for the current year was \$396,608 and was related to the Public Safety Program.

**NOTE F – NON-CURRENT LIABILITIES**

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012	Payable Within 1 Year
Annual leave	\$ 860,101	\$ 1,048,044	\$ (1,202,284)	\$ 705,861	\$ 705,861
Sick leave	15,180	11,689	(7,157)	19,712	19,712
Patients' Compensation Fund claims payable	46,769,518	29,654,296	(22,919,494)	53,504,320	11,519,992
Total non-current liabilities	<u>\$ 47,644,799</u>	<u>\$ 30,714,029</u>	<u>\$ (24,128,935)</u>	<u>\$ 54,229,893</u>	<u>\$ 12,245,565</u>

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

The Commission uses overall claims data to prepare the estimate for 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, 2012, 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, 2012

**NOTE G – DUE TO AND DUE 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	\$ 3,479
General Services Division		
Property Control	350	<u>2,863</u>
Total General Fund		6,342
 <u>Special Revenue</u>		
Special Revenue Fund (56900)		
State Treasurer (prior year)	394	14
Patients' Compensation Fund (23500)		
State Treasurer (prior year)	394	<u>3,334</u>
Total Special Revenue		<u>3,348</u>
Total Due From Agency		<u>\$ 9,690</u>
 <u>Due to Agency</u>		
Agency Funds Transportation (19000)		
Department of Transportation	805	\$ 18,311
Insurance Suspense (50800)		
Department of Finance and Administration		
Law Enforcement Fund	341	149,668
Department of Finance and Administration		
Carrie Tingley	341	<u>2,068</u>
Total Due To Agency		<u>\$ 170,047</u>

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

June 30, 2012

**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, 2012:

	General Fund 430-55000	Insurance Ops. 430-03900
Budget year 2012 reversions	\$ 226,891	\$ 5,054,479
Total due to State General Fund	\$ 226,891	\$ 5,054,479

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

Other financing sources and uses consist of the following:

	Transfers	
	In	Out
Commission Operating Fund (#55000)	\$ 11,996,806	\$ -
Patients Compensation Fund (#23500)	-	522,400
Insurance Operations Fund (#03900)	-	4,576,567
Insurance Fraud Fund(#37500)	-	1,189,652
Title Insurance Maintenance Fund (#86000)	-	479,364
Pipeline Safety Fund (#37700)	-	734,123
Reproduction Fund (#47700)	-	189,600
Fire Protection Grant Fund (#56900)	2,910,874	-
Insurance Examination Fund (#11300)	387	19,000
Fire Safer Cigarette and Fire Protection (#10890)	-	48,487
Grand total	\$ 14,908,067	\$ 7,759,193

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 2011.

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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

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.

**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, 2012, 2011, and 2010 were \$1,608,161, \$1,856,018, and \$2,028,965, 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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

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.

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, 2012, 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 year ending June 30, 2013, the contribution rates for employers and employees will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY2013	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.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

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, 2012, 2011, and 2010 were \$219,702, \$203,574, and \$168,897, respectively, which equal the required contributions for each year.

**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, 2012, 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.

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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**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 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
Colfax County	7,000	Support first responder training
Eddy County	5,000	Support first responder training
San Miguel County	7,000	Support first responder training
Santa Fe County	15,000	Support first responder training
Torrance County	7,000	Support first responder training
Total	<u>\$ 112,000</u>	

**NOTE N – CONTINGENT LIABILITIES**

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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE O – SUBSEQUENT EVENTS**

Events subsequent to June 30, 2012 have been evaluated by management through December 14, 2012, the date of the auditor's report. In the opinion of management, no events occurring after June 30, 2012 require adjustment to the financial statements.

On November 6, 2012, a statewide general election was held. There were two amendments to the New Mexico State Constitution approved by voters which directly impact the Commission. Constitutional Amendment 3 removed the authority to regulate and charter corporations from the Commission. Constitutional Amendment 4 removed the authority to regulate insurance companies from the Commission. The impact of these constitutional amendments to the Commission has not yet been determined.

**NOTE P –GENERAL FUND INVESTMENT POOL NOT RECONCILED**

In June 2012 an independent expert diagnostic report revealed that the General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human Resources, Accounting, and Management Reporting system (SHARE) system in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's (DFA) website at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx). The document title is Current State Diagnostic of Cash Control.

The General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury. Per Statute 6-5-2.1(J) NMSA 1978, DFA must reconcile the operating account on a monthly basis.

As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the Public Regulation Commission's balances at the business unit/fund level is not possible.

The information in the following paragraphs is provided by the DFA in relation to remedial efforts for this issue and expected timing.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commended the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE P –GENERAL FUND INVESTMENT POOL NOT RECONCILED - CONTINUED**

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items.

The initial phase of the Remediation Project, completed on October 11, 2012, focus on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

**NOTE Q – NEW ACCOUNTING STANDARDS**

The Governmental Accounting Standards Board (GASB) has published statements No. 67, *Financial Reporting for Pension Plans* and No. 68, *Accounting and Financial Reporting for Pensions*. These standards revise existing guidance for governments that provide their employees with pension benefits. A principal change is the requirement to record the government's pro rata share of unfunded actuarial accrued liability (UAAL) on its financial statements including multiemployer cost sharing plans. The Commission is a participating member of the Public Employees Retirement Association (PERA), a multiemployer cost sharing plan. See Note J. Other changes arising from these statements are significant and the Commission will comply with these changes as implementation date for statement No. 68, most relevant to the Commission is for FY2015. The current status of the unfunded liability for PERA is \$4.97 billion based on the most recently issued audited financial statement at June 30, 2011.

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**GENERAL FUND - PROGRAMS AND PROJECTS**

June 30, 2012

*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 #55000)

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

Programs:

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

Project:

- Evidence Processing Building

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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, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
General fund appropriation	\$ 5,674,000	\$ 5,674,000	\$ 5,674,000	\$ -
Other financing sources	1,431,500	1,431,500	1,066,400	(365,100)
Federal funds	-	-	-	-
Other fees	-	-	2,654	2,654
	7,105,500	7,105,500	6,743,054	(362,446)
Total budgeted revenues				
Expenditures:				
Personnel services	6,363,100	6,363,100	6,036,729	326,371
Contractual services	160,100	160,100	84,533	75,567
Operating costs	582,300	582,300	483,344	98,956
	7,105,500	7,105,500	6,604,606	500,894
Total budgeted expenditures				
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	138,448	\$ 138,448
Reversions			(138,448)	
Change in fund balance per GAAP			\$ -	

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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, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
General fund appropriation	\$ -	\$ -	\$ -	\$ -
Internal reversions within the Commission	-	-	(253,407)	(253,407)
Other financing sources	4,770,800	4,941,800	4,564,323	(377,477)
Federal funds	543,100	873,539	892,310	18,771
Other fees	-	-	(4,351)	(4,351)
	5,313,900	5,815,339	5,198,875	(616,464)
<b>Expenditures:</b>				
Personnel services	3,352,300	3,352,300	3,344,384	7,916
Contractual services	314,800	597,100	450,610	146,490
Operating costs	1,646,800	1,865,939	1,403,881	462,058
	5,313,900	5,815,339	5,198,875	616,464
<b>Excess (deficiency) of revenues over expenditures</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, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
General fund appropriation	\$ 2,097,200	\$ 2,097,200	\$ 2,097,200	\$ -
Other financing sources	989,100	989,100	918,600	(70,500)
Federal funds	-	-	-	-
Other fees	-	-	85	85
	3,086,300	3,086,300	3,015,885	(70,415)
Expenditures:				
Personnel services	2,698,100	2,665,100	2,532,641	132,459
Contractual services	48,600	81,600	80,795	805
Operating costs	339,600	339,600	293,042	46,558
	3,086,300	3,086,300	2,906,478	179,822
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	109,407	\$ 109,407
Reversion to the State General Fund			(109,407)	
Change in fund balance per GAAP			\$ -	



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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, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
General fund appropriation	\$ -	\$ -	\$ -	\$ -
Reversions to the state general fund	-	-	-	-
Other financing sources	6,071,100	6,090,100	5,447,483	(642,617)
Federal funds	-	3,226,426	666,920	(2,559,506)
Other fees	-	-	1,612	1,612
	6,071,100	9,316,526	6,116,015	(3,200,511)
Expenditures:				
Personnel services	5,225,000	6,772,610	5,107,133	1,665,477
Contractual services	288,000	997,716	572,602	425,114
Operating costs	558,100	1,591,200	435,893	1,155,307
Internal reversions within the Commission	-	-	387	(387)
	6,071,100	9,361,526	6,116,015	3,245,511
Prior year fund balance required to balance budget	\$ -	\$ (45,000)	-	\$ 45,000
Change in fund balance per GAAP			\$ -	

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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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Other financing sources	\$ -	\$ -	\$ 19,380	\$ 19,380
Total budgeted revenues	-	-	19,380	19,380
Expenditures:				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Operating costs	-	-	19,380	(19,380)
Total budgeted expenditures	-	-	19,380	(19,380)
Excess (deficiency) of revenues over expenditures per GAAP	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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**NONMAJOR FUNDS**

June 30, 2012

*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 #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 #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 #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 #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 #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 #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 #09300)

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**NONMAJOR FUNDS – CONTINUED**

June 30, 2012

*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 #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 #37700)

*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. The fund was created by and is not reverting per Section 59A-53-18 NMSA 1978. (SHARE Fund #56900)

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**COMBINING BALANCE SHEET – ALL NONMAJOR FUNDS**

June 30, 2012

	<u>Insurance Examination- 11300</u>	<u>Insurance Licensee Continuing Education- 17100</u>	<u>Title Insurance Maintenance- 86000</u>	<u>Insurance Fraud- 37500</u>
<b>ASSETS</b>				
Investments, State Treasurer Investment Pool	\$ 1,000	\$ 829,829	\$ 666,022	\$ 1,243,931
Due from the federal government	-	-	-	-
Due from other funds	387	-	-	-
Due from external parties - agency funds	-	-	-	-
Due from other agencies	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 1,387</u>	<u>\$ 829,829</u>	<u>\$ 666,022</u>	<u>\$ 1,243,931</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued payroll	-	-	-	-
Investments, State Treasurer Investment Pool-overdraft	-	-	-	-
Deferred revenue	-	-	304,608	-
Other liabilities	-	-	-	-
Due to other funds	-	-	434,364	1,189,652
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	-	-	738,972	1,189,652
<b>FUND BALANCES</b>				
Restricted	1,387	829,829	(72,950)	54,279
Committed	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>1,387</u>	<u>829,829</u>	<u>(72,950)</u>	<u>54,279</u>
Total liabilities and fund balances	<u>\$ 1,387</u>	<u>\$ 829,829</u>	<u>\$ 666,022</u>	<u>\$ 1,243,931</u>

<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>Fire Protection Grant Fund- 56900</u>	<u>Total</u>
\$ 129,750	\$ 384,765	\$ 947,815	\$ -	\$ 1,885,608	\$ 60,904	\$ 6,149,624
-	-	-	54,369	-	-	54,369
122,513	-	-	-	-	-	122,900
-	-	-	-	-	2,910,874	2,910,874
-	-	-	-	-	14	14
<u>\$ 252,263</u>	<u>\$ 384,765</u>	<u>\$ 947,815</u>	<u>\$ 54,369</u>	<u>\$ 1,885,608</u>	<u>\$ 2,971,792</u>	<u>\$ 9,237,781</u>
\$ -	\$ -	\$ -	\$ 1,245	\$ -	\$ 34,793	\$ 36,038
-	-	-	11,456	-	-	11,456
-	-	-	41,668	-	-	41,668
-	-	-	-	-	-	304,608
-	-	-	-	-	174,823	174,823
-	189,600	-	-	734,122	-	2,547,738
-	189,600	-	54,369	734,122	209,616	3,116,331
252,263	-	947,815	-	1,151,486	2,762,176	5,926,285
-	195,165	-	-	-	-	195,165
<u>252,263</u>	<u>195,165</u>	<u>947,815</u>	<u>-</u>	<u>1,151,486</u>	<u>2,762,176</u>	<u>6,121,450</u>
<u>\$ 252,263</u>	<u>\$ 384,765</u>	<u>\$ 947,815</u>	<u>\$ 54,369</u>	<u>\$ 1,885,608</u>	<u>\$ 2,971,792</u>	<u>\$ 9,237,781</u>

State of New Mexico  
Public Regulation Commission

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

June 30, 2012

	<u>Insurance Examination- 11300</u>	<u>Insurance Licensee Continuing Education- 17100</u>	<u>Title Insurance Maintenance- 86000</u>	<u>Insurance Fraud- 37500</u>
<b>Revenues</b>				
Insurance tax	\$ -	\$ 98,371	\$ -	\$ 1,085,674
Grant funds	-	-	-	-
Investment income	-	-	-	-
Other fees	-	-	291,744	-
	<u>-</u>	<u>-</u>	<u>291,744</u>	<u>-</u>
Total revenues	<u>-</u>	<u>98,371</u>	<u>291,744</u>	<u>1,085,674</u>
<b>Expenditures</b>				
Personal services	-	-	-	-
Contractual services	-	-	-	-
Operating costs	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	-	98,371	291,744	1,085,674
<b>Other financing sources and (uses)</b>				
Grants to local governments	-	-	-	-
Other financing sources - transfers in	387	-	-	-
Other financing uses - transfers out	(19,000)	-	(479,364)	(1,189,652)
	<u>(18,613)</u>	<u>-</u>	<u>(479,364)</u>	<u>(1,189,652)</u>
Total other financing sources and (uses)	<u>(18,613)</u>	<u>-</u>	<u>(479,364)</u>	<u>(1,189,652)</u>
Excess (deficiency) of revenues and other financing sources over expenditures	(18,613)	98,371	(187,620)	(103,978)
Fund balances, beginning of year	<u>20,000</u>	<u>731,458</u>	<u>114,670</u>	<u>158,257</u>
Fund balances, end of year	<u>\$ 1,387</u>	<u>\$ 829,829</u>	<u>\$ (72,950)</u>	<u>\$ 54,279</u>

Fire Safer Cigarette and Fire Protection Fund- 10890	Reproduction Fund- 47700	Firefighters Use Fee- 09300	ARRA Renewable Energy- 89000	Pipeline Safety- 37700	Fire Protection Grant Fund- 56900	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,184,045
-	-	-	165,191	-	-	165,191
-	-	-	-	-	854	854
<u>8,250</u>	<u>49,228</u>	<u>96,670</u>	<u>-</u>	<u>89,418</u>	<u>-</u>	<u>535,310</u>
<u>8,250</u>	<u>49,228</u>	<u>96,670</u>	<u>165,191</u>	<u>89,418</u>	<u>854</u>	<u>1,885,400</u>
-	-	-	148,649	-	-	148,649
-	-	-	-	-	91,916	91,916
-	-	-	<u>16,542</u>	-	<u>3,706</u>	<u>20,248</u>
-	-	-	<u>165,191</u>	-	<u>95,622</u>	<u>260,813</u>
8,250	49,228	96,670	-	89,418	(94,768)	1,624,587
-	-	-	-	-	(2,878,884)	(2,878,884)
-	-	-	-	-	2,910,874	2,911,261
<u>(48,487)</u>	<u>(189,600)</u>	<u>-</u>	<u>-</u>	<u>(734,123)</u>	<u>-</u>	<u>(2,660,226)</u>
<u>(48,487)</u>	<u>(189,600)</u>	<u>-</u>	<u>-</u>	<u>(734,123)</u>	<u>31,990</u>	<u>(2,627,849)</u>
(40,237)	(140,372)	96,670	-	(644,705)	(62,778)	(1,003,262)
<u>292,500</u>	<u>335,537</u>	<u>851,145</u>	<u>-</u>	<u>1,796,191</u>	<u>2,824,954</u>	<u>7,124,712</u>
<u>\$ 252,263</u>	<u>\$ 195,165</u>	<u>\$ 947,815</u>	<u>\$ -</u>	<u>\$ 1,151,486</u>	<u>\$ 2,762,176</u>	<u>\$ 6,121,450</u>



State of New Mexico  
Public Regulation Commission

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

For the year ended June 30, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other financing sources	\$ -	\$ 19,000	\$ 387	\$ (18,613)
Expenditures:				
Other financing uses - out	-	19,000	(19,000)	-
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ (18,613)	\$ (18,613)

State of New Mexico  
Public Regulation Commission

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

For the year ended June 30, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Insurance tax	\$ -	\$ -	\$ 98,371	\$ 98,371
Expenditures:				
Other financing uses	-	-	-	-
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,371</u>	<u>\$ 98,371</u>

No budget was adopted in this fund for FY12 due to low activity.

State of New Mexico  
Public Regulation Commission

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

For the year ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Other financing sources	\$ -	\$ -	\$ -	\$ -
Other fees	<u>475,400</u>	<u>520,400</u>	<u>291,744</u>	<u>(228,656)</u>
Total revenues	475,400	520,400	291,744	(228,656)
Expenditures:				
Other financing uses	<u>475,400</u>	<u>520,400</u>	<u>479,364</u>	<u>41,036</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (187,620)</u>	<u>\$ (187,620)</u>

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

For the year ended June 30, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Insurance tax	\$ 1,386,600	\$ 1,386,600	\$ 1,085,674	\$ (300,926)
Other financing sources	-	-	-	-
Total revenues	1,386,600	1,386,600	1,085,674	(300,926)
Expenditures:				
Other financing uses	1,386,600	1,386,600	1,189,652	196,948
Excess (deficiency) of revenues over expenditures	-	-	<u>\$ (103,978)</u>	<u>\$ (103,978)</u>
Fund balance carryforward	-	-		
Total	<u>\$ -</u>	<u>\$ -</u>		

State of New Mexico  
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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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Other Fees	<u>\$ -</u>	<u>\$ 171,000</u>	<u>\$ 8,250</u>	<u>\$ (162,750)</u>
Expenditures:				
Other financing uses	<u>-</u>	<u>171,000</u>	<u>48,487</u>	<u>122,513</u>
Excess (deficiency) of revenues over expenditures (prior year fund balance required to balance budget)	-	-	<u>\$ (40,237)</u>	<u>\$ (40,237)</u>
Fund balance carryforward	<u>292,500</u>	<u>292,500</u>		
Total	<u>\$ 292,500</u>	<u>\$ 292,500</u>		

State of New Mexico  
Public Regulation Commission

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

For the year ended June 30, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Printing and reproduction	\$ 189,600	\$ 189,600	\$ 49,228	\$ (140,372)
Expenditures:				
Other financing uses	189,600	189,600	189,600	-
Excess (deficiency) of revenues over expenditures	-	-	(140,372)	(140,372)
Cash balance carryforward	189,600	189,600	-	-
Total	\$ -	\$ -		
Change in fund balance per GAAP			\$ (140,372)	\$ (140,372)

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Public Regulation Commission

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

For the year ended June 30, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other fees	\$ -	\$ -	\$ 96,670	\$ 96,670
Expenditures:				
Other	-	-	-	-
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,670</u>	<u>\$ 96,670</u>

There was no budget established for this fund in FY12 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, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Federal Grants	\$ -	\$ 800,578	\$ 165,191	\$ (635,387)
Expenditures:				
Personal services			148,649	(148,649)
Contractual services			-	-
Other	-	800,578	16,542	784,036
Total Expenditures	-	800,578	165,191	635,387
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ -	\$ -



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, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other fees	\$ -	\$ -	\$ 89,418	\$ 89,418
Other sources	1,310,900	1,310,900	-	(1,310,900)
Total revenues	1,310,900	1,310,900	89,418	(1,221,482)
Expenditures:				
Other financing uses	1,310,900	1,310,900	734,123	576,777
Excess (deficiency) of revenues over expenditures	-	-	\$ (644,705)	\$ (644,705)
Cash balance carryforward	-	-		
Total	\$ -	\$ -		

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, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other financing sources	\$ -	\$ 3,163,000	\$ 2,910,874	\$ (252,126)
Investment Income	-	-	854	854
Total revenues	-	3,163,000	2,911,728	(251,272)
Expenditures:				
Personal services	-	-	-	-
Contractual services	-	150,000	91,916	58,084
Other	-	3,013,000	2,882,590	130,410
Other financing uses	-	-	-	-
Total expenditures	-	3,163,000	2,974,506	188,494
Excess (deficiency) of revenues over expenditures	-	-	\$ (62,778)	\$ (62,778)
Fund balance carryforward	273,577	273,577		
Total	\$ 273,577	\$ 273,577		

State of New Mexico  
Public Regulation Commission

**AGENCY FUNDS**

June 30, 2012

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 #430-41190)

*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 #430-19000)

*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 # 430-57800)

*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 # 430-50300)

*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 #430-30500)

*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 #430-50400)

State of New Mexico  
Public Regulation Commission

**AGENCY FUNDS – CONTINUED**

June 30, 2012

*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 # 430-50500)

*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 # 430-50600)

*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 # 430-50800)

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

State of New Mexico  
Public Regulation Commission

**COMBINING BALANCE SHEET – ALL AGENCY FUNDS**

June 30, 2012

	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	\$ -	\$ 18,311	\$ 54,185,404	\$ 21,189
Cash in banks - ancillary receivership	628,272	-	-	-
Security deposits	451,450,790	-	-	-
Due from external parties-governmental funds	-	-	130,894	-
Due from other agency funds	-	-	15,639,233	-
	<u>\$ 452,079,062</u>	<u>\$ 18,311</u>	<u>\$ 69,955,531</u>	<u>\$ 21,189</u>
Total assets				
<b>LIABILITIES</b>				
Due to State General Fund	\$ -	\$ -	\$ 18,942,964	\$ 21,189
Due to other agency funds	-	-	-	-
Due to external parties-governmental funds	-	-	2,910,874	-
Due to other agencies	-	18,311	-	-
Undistributed receipts	-	-	4,951,300	-
Accounts payable	-	-	43,150,393	-
Deposits held in trust	452,079,062	-	-	-
	<u>\$ 452,079,062</u>	<u>\$ 18,311</u>	<u>\$ 69,955,531</u>	<u>\$ 21,189</u>
Total liabilities and fund balances				

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
\$ 27	\$ 600	\$ 825	\$ 500	\$ 16,640,897	\$ 56,870	\$ 70,924,623
-	-	-	-	-	-	628,272
-	-	-	-	-	-	451,450,790
-	-	-	-	-	-	130,894
-	-	-	-	-	-	15,639,233
<u>\$ 27</u>	<u>\$ 600</u>	<u>\$ 825</u>	<u>\$ 500</u>	<u>\$ 16,640,897</u>	<u>\$ 56,870</u>	<u>\$ 538,773,812</u>
\$ 27	\$ 600	\$ 825	\$ 500	\$ 1,347,014	\$ -	\$ 20,313,119
-	-	-	-	15,639,233	-	15,639,233
-	-	-	-	361,552	-	3,272,426
-	-	-	-	151,736	-	170,047
-	-	-	-	(858,638)	56,870	4,149,532
-	-	-	-	-	-	43,150,393
-	-	-	-	-	-	452,079,062
<u>\$ 27</u>	<u>\$ 600</u>	<u>\$ 825</u>	<u>\$ 500</u>	<u>\$ 16,640,897</u>	<u>\$ 56,870</u>	<u>\$ 538,773,812</u>

State of New Mexico  
Public Regulation Commission

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

June 30, 2012

	Balance July 1, 2011	Additions	(Deletions)	Balance June 30, 2012
<b><u>TRUST FUNDS WITH SUPERINTENDENT (41190)</u></b>				
<b>ASSETS</b>				
Cash in banks - ancillary receivership	\$ 1,265,555	\$ -	\$ (637,283)	\$ 628,272
Security deposits	431,764,573	19,686,217	-	451,450,790
Total assets	\$ 433,030,128	\$ 19,686,217	\$ (637,283)	\$ 452,079,062
<b>LIABILITIES</b>				
Deposits held in trust	\$ 433,030,128	\$ 19,686,217	\$ (637,283)	\$ 452,079,062
Total liabilities	\$ 433,030,128	\$ 19,686,217	\$ (637,283)	\$ 452,079,062
<b><u>MOTOR TRANSPORTATION (19000)</u></b>				
<b>ASSETS</b>				
Investments, State Treasurer Investment Pool	\$ 16,046	\$ 881,081	\$ (878,816)	\$ 18,311
Total assets	\$ 16,046	\$ 881,081	\$ (878,816)	\$ 18,311
<b>LIABILITIES</b>				
Due to other state agencies	\$ 16,046	\$ 881,081	\$ (878,816)	\$ 18,311
Total liabilities	\$ 16,046	\$ 881,081	\$ (878,816)	\$ 18,311
<b><u>FIRE PROTECTION AGENCY FUND (57800)</u></b>				
<b>ASSETS</b>				
Investments, State Treasurer Investment Pool	\$ 67,737,891	\$ -	\$ (13,552,487)	\$ 54,185,404
Due from external parties-governmental funds	1,062,261	-	(931,367)	130,894
Due from other agency funds	601,894	15,037,339	-	15,639,233
Total assets	\$ 69,402,046	\$ 15,037,339	\$ (14,483,854)	\$ 69,955,531
<b>LIABILITIES</b>				
Due to State General Fund	\$ 18,645,458	\$ 35,166,393	\$ (34,868,887)	\$ 18,942,964
Due to external parties-governmental funds	2,720,726	2,910,874	(2,720,726)	2,910,874
Undistributed receipts	4,865,100	65,841,239	(65,755,039)	4,951,300
Accounts payable	43,170,762	43,783,108	(43,803,477)	43,150,393
Total liabilities	\$ 69,402,046	\$ 147,701,614	\$ (147,148,129)	\$ 69,955,531

State of New Mexico  
Public Regulation Commission

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

June 30, 2012

	Balance July 1, 2011	Additions	(Deletions)	Balance June 30, 2012
<b><u>CORPORATION FEES (50300)</u></b>				
ASSETS				
Investments, State Treasurer Investment Pool	\$ 31,930	\$ 3,653,092	\$ (3,663,833)	\$ 21,189
Total assets	\$ 31,930	\$ 3,653,092	\$ (3,663,833)	\$ 21,189
LIABILITIES				
Due to State General Fund	\$ 31,930	\$ 3,653,092	\$ (3,663,833)	\$ 21,189
Total liabilities	\$ 31,930	\$ 3,653,092	\$ (3,663,833)	\$ 21,189
<b><u>SPECIAL CORPORATION FEES FUND (50601)</u></b>				
ASSETS				
Investments, State Treasurer Investment Pool	\$ -	\$ 15,352,804	\$ (15,352,777)	\$ 27
Total assets	\$ -	\$ 15,352,804	\$ (15,352,777)	\$ 27
LIABILITIES				
Due to State General Fund	\$ -	\$ 15,352,804	\$ (15,352,777)	\$ 27
Total liabilities	\$ -	\$ 15,352,804	\$ (15,352,777)	\$ 27
<b><u>QWEST PERFORMANCE ASSURANCE PLAN (30500)</u></b>				
ASSETS				
Investments, State Treasurer Investment Pool	\$ -	\$ 600	\$ -	\$ 600
Total assets	\$ -	\$ 600	\$ -	\$ 600
LIABILITIES				
Due to State General Fund	\$ -	\$ 600	\$ -	\$ 600
Total liabilities	\$ -	\$ 600	\$ -	\$ 600
<b><u>FRANCHISE TAX (50400)</u></b>				
ASSETS				
Investments, State Treasurer Investment Pool	\$ 400	\$ 825	\$ (400)	\$ 825
Total assets	\$ 400	\$ 825	\$ (400)	\$ 825
LIABILITIES				
Due to State General Fund	\$ 400	\$ 825	\$ (400)	\$ 825
Total liabilities	\$ 400	\$ 825	\$ (400)	\$ 825



State of New Mexico  
Public Regulation Commission

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

June 30, 2012

	Balance July 1, 2011	Additions	(Deletions)	Balance June 30, 2012
<b><u>PIPELINE FEES (50500)</u></b>				
<b>ASSETS</b>				
Investments, State Treasurer Investment Pool	\$ 3,802	\$ 40,604	\$ (43,906)	\$ 500
Total assets	\$ 3,802	\$ 40,604	\$ (43,906)	\$ 500
<b>LIABILITIES</b>				
Due to State General Fund	\$ 3,802	\$ 40,604	\$ (43,906)	\$ 500
Total liabilities	\$ 3,802	\$ 40,604	\$ (43,906)	\$ 500
<b><u>INSURANCE SUSPENSE (50800)</u></b>				
<b>ASSETS</b>				
Investments, State Treasurer Investment Pool	\$ 829,403	\$213,460,920	\$ (197,649,426)	\$ 16,640,897
Total assets	\$ 829,403	\$213,460,920	\$ (197,649,426)	\$ 16,640,897
<b>LIABILITIES</b>				
Due to State General Fund	\$ (30,629)	\$ 2,481,381	\$ (1,103,738)	\$ 1,347,014
Due to other agency funds	601,894	17,758,065	(2,720,726)	15,639,233
Due to external parties-governmental funds	172,818	188,734	-	361,552
Due to other state agencies	85,320	671,467	(605,051)	151,736
Undistributed receipts	-	21,974,609	(22,833,247)	(858,638)
Total liabilities	\$ 829,403	\$ 43,074,256	\$ (27,262,762)	\$ 16,640,897
<b><u>FIREFIGHTERS' SURVIVOR (56400)</u></b>				
<b>ASSETS</b>				
Investments, State Treasurer Investment Pool	\$ 50,000	\$ 6,870	\$ -	\$ 56,870
Total assets	\$ 50,000	\$ 6,870	\$ -	\$ 56,870
<b>LIABILITIES</b>				
Undistributed receipts	\$ 50,000	\$ 6,870	\$ -	\$ 56,870
Total liabilities	\$ 50,000	\$ 6,870	\$ -	\$ 56,870

State of New Mexico  
Public Regulation Commission

**SCHEDULE OF SPECIAL APPROPRIATIONS**

June 30, 2012

	<u>Current Year Revenue</u>	<u>Amount Appropriated</u>	<u>Current Year Expenditures</u>	<u>Project to Date Expenditures</u>	<u>Unexpended Portion</u>	<u>Unexpended and Reverted</u>
<b>Bond Proceeds Appropriations</b>						
Laws of 2009, Chapter 125, Section 7, Item 19 Public Regulation Commission	\$ 19,380	\$ 135,000	\$ 19,380	\$ 126,284	\$ -	\$ 8,716
<b>Special Appropriations</b>						
None.						

State of New Mexico  
Public Regulation Commission

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year ended June 30, 2012

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	DTPH56-10-G-PHPG29	20.700	\$ 126,879
Gas Pipeline Safety	DTPH56-11-G-PHPG28	20.700	315,487
Hazardous Liquid Pipeline Safety	DTPH56-10-G-PHPL12	20.700	(5,734)
Hazardous Liquid Pipeline Safety	DTPH56-11-G-PHPL09	20.700	<u>18,542</u>
			455,174
Damage Prevention Pipeline Safety		20.720	95,641
Gas Pipeline Safety (One-call)	DTPH56-11-G-PHPC20	20.721	30,818
Gas Pipeline Safety (One-call)	DTPH56-12-G-PHPC19	20.721	<u>7,778</u>
			<u>38,596</u>
<b>Total U.S. Department of Transportation</b>			589,411
<b>U.S. Department of Energy:</b>			
<b>Direct Programs:</b>			
State Electric Regulator's Assistance Award (ARRA)	DE-OE0000162	81.122	165,190
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>199,479</u>

State of New Mexico  
Public Regulation Commission

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

Year ended June 30, 2012

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	1IPRPR100038-01-00	93.511	529,607
Health Insurance Premium Review	1PRPPR120026-01-00	93.511	<u>35,407</u>
			565,014
Consumer Assistance Program Grant	CAPCA110039-01-00	93.519	<u>101,906</u>
<b>Total U.S. Department of Health and Human Services</b>			666,920
<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>97,015</u>
<b>Total U.S. Department of HUD</b>			<u>97,015</u>
<b>Total expenditures of federal awards</b>			<u><u>\$ 1,718,015</u></u>
Federal expenditures per above			<u>\$ 1,718,015</u>
Grant revenue per financial statements			<u><u>\$ 1,718,015</u></u>

The Schedule of Expenditures of Federal Awards is prepared on the modified 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, 2012, 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, 2012, as listed in the table of contents, and have issued our report thereon dated December 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies in internal control over financial reporting. These findings can be referenced as items 12-01, and 12-02. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

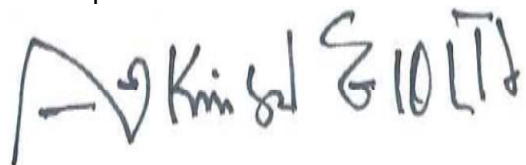
#### Compliance and Other Matters

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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, 11-06, and 12-03.

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 blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' and a heart-like shape.

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
December 14, 2012



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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, 2012. 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, 2012.

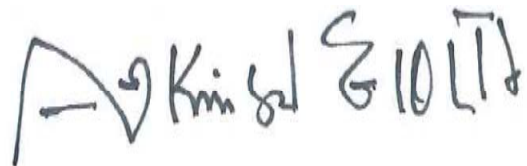
#### Internal Control Over Compliance

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.

*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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 logo to the left consisting of a large 'A' and a heart-like shape.

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
December 14, 2012



State of New Mexico  
Public Regulation Commission

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the year ended June 30, 2012

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

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
  
- Significant deficiency(ies) indentified 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? \_\_\_\_\_ Yes   X   No
  
- Significant deficiency(ies) indentified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   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? \_\_\_\_\_ Yes   X   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	None
93.511	Health Insurance Premium Review	None

State of New Mexico  
Public Regulation Commission

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

For the year ended June 30, 2012

**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
11-01 ARRA Fund and Fire Safety Cigarette and Fire Protection Fund missing in prior year audit	Resolved
11-02 Federal grant reporting compliance	Resolved
11-03 Data Collection Form submission-no filing	Resolved
11-04 Capital asset disposals	Resolved
11-05 Use of state issued gas credit cards	Resolved
11-06 State vehicles and commuting	Repeated and modified
11-07 Controls over assignment of vehicles and documentation of vehicle usage	Resolved
11-08 Violation referral	Resolved

**IV. Current Audit Findings**

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

- 12-01 Capital outlay accounts not reconciled to capital asset inventory (significant deficiency)
- 12-02 Improper revenue recognition (significant deficiency)

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

None

**Findings in Accordance with 2.2.2. NMAC**

- 02-03 Cash receipts deposits – other
- 11-06 State vehicles and commuting – other
- 12-03 Procurement violation - other

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

For the year ended June 30, 2012

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

**12-01 CAPITAL OUTLAY ACCOUNTS NOT RECONCILED TO CAPITAL ASSET INVENTORY (Significant Deficiency)**

*Condition:*

There was a capital asset purchased that was coded to a non-capital outlay account. The amount of capital items not recorded in capital outlay accounts approximated \$18,000.

*Criteria:*

Property, plant and equipment purchased or acquired at a cost of \$5,000 or greater are to be capitalized in accordance with 12-6-10 NMSA 1978. Capital assets below \$5,000 should be recorded in non-capital outlay accounts.

*Effect:*

Capital asset records and depreciation expense were misstated.

*Cause:*

Items were not coded to accounts where the items were budgeted.

*Recommendation:*

We recommend that capital outlay accounts are budgeted and used in compliance with state statutes to facilitate reconciliation to capital asset additions reported in the financial statements.

*Management's Response:*

The New Mexico Public Regulation Commission acknowledges that capital assets were not reconciled appropriately with the classification of one purchase. The Budget and Finance Bureau of NMPRC was short staffed in FY2012, therefore reconciliations were not done timely. Management of the capital assets were directed by a new person and training is ongoing to ensure that all capital assets are accounted for appropriately and reconciled accurately. Reconciliations of all expenses are being done timely to ensure that they are being classified appropriately.

**12-02 IMPROPER REVENUE RECOGNITION (Significant Deficiency)**

*Condition:*

Adjustments to revenue were required in the amounts of \$304,607 in the Title Insurance Maintenance Fund and \$175,000 in the Insurance Operations Fund.

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

For the year ended June 30, 2012

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

**12-02 IMPROPER REVENUE RECOGNITION (Significant Deficiency) - CONTINUED**

*Criteria:*

Generally accepted accounting principles (GAAP) for state and local governments requires revenue recognition when it is available and measurable under the modified accrual basis of accounting, and requires recognition when the revenue is earned under full accrual basis of accounting.

*Effect:*

Revenues were misstated for two funds.

*Cause:*

FY2012 was the first year that fees collected in the Title Insurance Maintenance Fund were assessed and collected in June for the next fiscal year, causing the fees to be prematurely recognized as current revenue. Insurance Operation Fees collected through the Insurance Suspense Fund, which is used to account for the collection and distribution of certain fees, were not distributed to the Insurance Operations Fund as required.

*Recommendation:*

We recommend the Commission review its monthly cash receipt reconciliation procedures to ensure that all revenues and liabilities are recorded.

*Management's Response:*

The New Mexico Public Regulation Commission Budget and Finance section has been short staffed in FY2012 and therefore reconciliations were not done timely. Staff has been hired and training is ongoing to ensure that all subsidiary system and SHARE are reconciled monthly. These reconciliations will be to ensure that all revenues, expenditures and purchases are reconciled monthly with the CFO signing all reconciliations to ensure that they are being done timely and accurately.

**Findings in Accordance with 2.2.2. NMAC**

**02-03 CASH DEPOSITS – OTHER**

*Condition:*

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

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

For the year ended June 30, 2012

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

**02-03 CASH DEPOSITS – CONTINUED**

*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.

*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. Another recommendation is to consider using lockboxes to expedite the deposit of state funds. For those divisions where depositing the cash receipts in twenty-four hours and/or a lockbox is not feasible, the Commission may wish to seek a statutory exemption from the twenty-four hour deposit rule.

*Management's Response:*

The New Mexico Public Regulation Commission is working with Wells Fargo Bank to institute a lock box process for all divisions that collect revenues. The lock box process will enable all revenue processing to be done by Wells Fargo and provide the capability of the NMPRC to have access to all detailed deposits being processed by Wells Fargo when doing reconciliations.

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

*Condition:*

We tested PRC's compliance with tax documentation requirements for vehicles used for commuting purposes. We noted that for the first six months of FY2012, PRC lacked issued policies for commuting and associated recordkeeping in relation to the use of government vehicles. A policy was adopted by the Commission in January, 2012 which addressed the issues mentioned above.

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

For the year ended June 30, 2012

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

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

*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.

*Effect:*

The PRC was 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 was not adequate to support fringe benefit income reporting. Through lack of records, the PRC was not able to monitor the usage of government vehicles in relation to commuting.

*Cause:*

Until January 2012, there was a lack of established policies setting forth requirements and supporting documentation that is needed in this area.

*Recommendation:*

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

*Management's Response:*

The New Mexico Public Regulation Commission instituted a new vehicle policy which was approved by the NMPRC in late January of 2012. As part of the approved vehicle policy, Forms W-2 will be issued to anyone who is approved to use a vehicle to commute. Commuting is expected to be minimal in FY2013 due to a lesser number of individuals taking cars home.

**12-03 PROCUREMENT VIOLATION – OTHER**

*Condition:*

A vendor performed work for the Commission without a valid contract in place. The procurement violation was subsequently discovered by management who self reported this violation.

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

For the year ended June 30, 2012

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

**12-03 PROCUREMENT VIOLATION – OTHER - CONTINUED**

*Criteria:*

Section 6-5-3 NMSA 1978 requires state agencies to have a valid contract in place before work is performed.

*Effect:*

The procurement of services was in violation of statute.

*Cause:*

The Commission did not have a contract in place and did not get prior approval from DFA to procure the services without a contract.

*Recommendation:*

We recommend the Commission comply with state purchasing regulations for all future procurements.

*Management's Response:*

The New Mexico Public Regulation Commission acknowledges that the insurance Division approved a vendor to provide public information material used for awareness to customers of health insurance policies without an approved purchase order. The NMPRC has corrected the issue and have instituted quarterly trainings on all aspects of procurement to ensure that all staff understand the procurement process and the use of approved forms.

State of New Mexico  
Public Regulation Commission

**FINANCIAL STATEMENT PREPARATION**

June 30, 2012

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 December 5, 2012, to discuss the audit. The following individuals were in attendance:

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

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 Hartogenesis, CPA, CGFM, Senior Manager



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