STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2008

HINKLE & LANDERS, P.C.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2008

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2008

OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
OFFICIAL ROSTER
JUNE 30, 2008

Glenn R. Smith	Director
Abelino Montoya	Assistant Director
Alfonso Otero	Special Assistant to the Director
Laura Feight	Deputy Director – Internal Operations
Elaine Trujillo	Deputy Director – External Operations
Ida Alvarado	Financial Manager
Sharon Gentry	General Counsel

Hinkle & Landers, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Independent Auditors' Report

Mr. Hector H. Balderas,
New Mexico State Auditor
And
State of New Mexico
Workers' Compensation Administration

We have audited the accompanying financial statements of the governmental activities, each major fund, the respective budgetary comparisons, and the aggregate remaining fund information of the Workers' Compensation Administration (the Administration) as of and for the year ended June 30, 2008, which collectively comprise the Administration's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Administration's fiduciary funds presented as supplementary information in the accompanying individual fund and other financial statements as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Administration'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 basic 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 2, the financial statements of the Administration are intended to present the financial position, and the 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 Administration. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2008, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the agency, as of June 30, 2008, and the respective changes in financial position thereof and the respective budgetary comparisons for 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 fiduciary fund of the agency as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 5, 2009, on our consideration of Workers' Compensation Administration's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Administration has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Administration's basic financial statements. The additional schedules listed as "supplemental 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hinkle & Landers, P.C.

Hinkle & Landers, P.C.
October 5, 2009

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008

		Governmental Activities
ASSETS		
Current assets:		
Investment in State Treasurer General Fund Investment Pool	$	11,851,054
Petty cash		100
Prepaid expenses		20,795
Receivables of penalties and assessments, (net)		593,943
Receivable from other governments		8,730
Total current assets		12,474,622
Noncurrent assets:		
Capital assets, net		142,463
Total noncurrent assets		142,463
Total assets	$	12,617,085
LIABILITIES		
Current liabilities:		
Accounts payable	$	152,552
Accrued payroll and related liabilities		342,479
Compensated absences-current		286,086
Total current liabilities		781,117
Long-term liabilities:		
Compensated absences-long-term		86,472
Total long-term liabilities		86,472
Total liabilities		867,589
NET ASSETS		
Invested in capital assets		142,463
Unrestricted		11,607,033
Total net assets		11,749,496
Total liabilities and net assets	$	12,617,085

See Notes to Financial Statements.

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

		Governmental Activities
Program Expenses		
General governmental	$	10,868,098
Depreciation		31,269
Total program expenses		10,899,367
General Revenues		
Workers' Compensation assessments		12,143,743
Penalties		814,504
Total general revenues		12,958,247
Transfers		
Interagency transfers in (out) - Note 11		(691,500)
Change in net assets		1,367,380
Net assets, beginning of year		10,382,116
Net assets, end of year	$	11,749,496

See Notes to Financial Statements.

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF JUNE 30, 2008

		General Fund	Uninsured Employers Fund	Total
ASSETS				
Investment in State Treasurer General Fund Investment Pool	$	10,251,731	1,599,323	11,851,054
Petty cash		100	-	100
Prepaid expenses		20,795	-	20,795
Receivables of penalties and assessments, net		124,992	468,951	593,943
Receivable from other agencies		-	8,730	8,730
Receivable from other funds		-	6,296	6,296
Total assets	$	10,397,618	2,083,300	12,480,918
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$	136,014	16,538	152,552
Accrued payroll and related liabilities		342,479	-	342,479
Payable to other funds		6,296	-	6,296
Total liabilities		484,789	16,538	501,327
Fund balance				
Unreserved, designated for subsequent year's expenditures		9,892,034	2,066,762	11,958,796
Reserved for prepaid expenses		20,795	-	20,795
Total fund balance		9,912,829	2,066,762	11,979,591
Total liabilities and fund balance	$	10,397,618	2,083,300	12,480,918

See Notes to Financial Statements.

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
RECONCILIATION OF BALANCE SHEET TO THE
STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
AS OF JUNE 30, 2008

Fund balances - total governmental funds	$	11,979,591
Amounts reported for governmental activities in the statement of net assets are different because:		
Governmental capital assets, net of accumulated depreciation		142,463
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds		
Compensated absences		(372,558)
Net assets of governmental activities	$	11,749,496

See Notes to Financial Statements.

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Uninsured Employers Fund	Total
Revenues			
Other state funds			
Workers' compensation assessments	$ 11,202,166	941,577	12,143,743
Penalties	19,044	795,460	814,504
Total revenues	11,221,210	1,737,037	12,958,247
General government expenditures			
Current expenditures			
Personal services	8,778,685	-	8,778,685
Contract services	257,223	13,425	270,648
Other costs	1,263,333	569,196	1,832,529
Capital outlay	55,202	-	55,202
Total expenditures	10,354,443	582,621	10,937,064
Excess (deficiency) of revenue over expenditures	866,767	1,154,416	2,021,183
Other financing sources (uses)	(691,500)	-	(691,500)
Net change in fund balance	175,267	1,154,416	1,329,683
Fund balances, beginning of year	9,737,562	912,346	10,649,908
Fund balances, end of year	$ 9,912,829	2,066,762	11,979,591

See Notes to Financial Statements.

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
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, 2008

Net change in fund balances - total governmental funds		$ 1,329,683
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		
Expenditures for capital assets	$ 60,646	
Less current year depreciation	(31,269)	29,377
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in long-term compensated absences		8,319
Differences due to rounding		1
Net change in net assets - governmental activities		$ 1,367,380

See Notes to Financial Statements.

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
STATEMENT OF REVENUES AND
EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Workers' compensation assessment	$ 11,218,800	11,461,900	11,202,166	(259,734)
Miscellaneous Revenues	-	-	19,044	19,044
Total revenues	11,218,800	11,461,900	11,221,210	(240,690)
Expenditures				
Personal services	8,850,900	9,050,900	8,778,685	272,215
Contractual services	350,600	350,600	257,223	93,377
Other	1,325,800	1,475,800	1,318,200	157,600
Total expenditures	10,527,300	10,877,300	10,354,108	523,192
Excess (deficiency) of revenues over expenditures	$ 691,500	584,600	867,102	282,502
Other Financing Sources (Uses)				
Intraagency transfer	(691,500)	(691,500)	(691,500)	-
Net interagency transfers and financial sources (uses)	(691,500)	(691,500)	(691,500)	-
Net change in fund balance	$ -	(106,900)	175,602	282,502
Prior year cash balance	-	106,900		
	$ -	-		

Reconciliation of Budgetary Basis to Fund Financial Statement

Total budget basis expenditures for fiscal year 2008:	$ 10,354,108
Adjustments:	
Accounts payable that required a request to pay prior-year bills out of the FY2009 budget	335
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2008:	$ 10,354,443

See Notes to Financial Statements.

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
STATEMENT OF REVENUES AND
EXPENDITURES - BUDGET AND ACTUAL
UNINSURED EMPLOYERS FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Workers' compensation assessment	$ 1,169,100	1,169,100	941,577	(227,523)
Miscellaneous Revenues	-	-	795,460	795,460
Total revenues	1,169,100	1,169,100	1,737,037	567,937
Expenditures				
Personal services	-	-	-	-
Contractual services	100,000	100,000	13,425	86,575
Other	1,069,100	1,069,100	569,196	499,904
Other financing uses	-	-	-	-
Total expenditures	1,169,100	1,169,100	582,621	586,479
Excess (deficiency) of revenues over expenditures	$ -	-	1,154,416	1,154,416
Other Financing Sources (Uses)				
Intraagency transfer	-	-	-	-
Net interagency transfers and financial sources (uses)	-	-	-	-
Net change in fund balance	$ -	-	1,154,416	1,154,416

See Notes to Financial Statements.

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND
AS OF JUNE 30, 2008

		SHARE Fund 59600
Assets		
Investment in State Treasurer General Fund Investment Pool	$	2,400
Accounts receivable		5,450
Total assets	$	7,850
Liabilities		
Due to State General Fund	$	7,850
Net Assets	$	-

See Notes to Financial Statements.

1. Nature of Business

The Workers' Compensation Administration (Administration) was created on January 1, 1991, and until June 30, 1993, was administratively attached to the New Mexico Department of Labor (DOL). Effective July 1, 1993, the Administration became a fully independent agency vouchering through the Department of Finance and Administration (DFA).

The legislature created the Administration and the laws administered by it to provide a workers' benefit system that assures the quick and efficient delivery of indemnity and medical benefits to injured and disabled workers at a reasonable cost to the employers who are subject to the provisions of the Workers' Compensation Act (Chapter 52, Article 1, W S A 1978) and the New Mexico Occupational Disease Disablement Law (Chapter 52, Article 3, W S A 1978).

2. Summary of Significant Accounting Policies

The financial statements of the Administration have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Administration applies all relevant Governmental Accounting Standards board (GASB) pronouncements and applicable Financial Accounting Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Administration does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The more significant of the Administration's accounting policies are described below:

A. Financial Reporting Entity

The chief executive of the Administration is the Executive Director, who is appointed by the Governor of the State of New Mexico. The Administration is a component unit of the executive branch and these financial statements include all funds and activities over which the Executive Director has oversight responsibility.

The Administration is a component unit of the executive branch and these financial statements include all funds, programs and activities over which the Executive Director has oversight responsibility. As a component unit of the State of New Mexico, a phase one government, the Administration was required to implement GASB Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments in fiscal year 2002.

Governmental Accounting Standards Board Statement (GASBS) 14, "The Financial Reporting Entity," effective for periods beginning after December 15, 1992, establishes standards for defining and reporting on the financial reporting entity. GASBS 14 supersedes previous standards issued by the National Council on Governmental Accounting. The requirements of GASBS 14 apply at all levels to all state and local governments.

GASBS 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, administrations and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The Administration, 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. However, New Mexico does not at present issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government.

The Administration is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Even though the Adjutant General is appointed by the Governor, the Adjutant General has decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The Audit Act, Section 12-6-1 through 12-6-14, NMSA 1978, requires the financial affairs of every agency to be thoroughly examined and audited each year, and a complete written report to be made. Moreover, the New Mexico State Auditor requires that each agency shall prepare financial statements in accordance with accounting principles generally accepted in the United States of America. However, the financial statements were prepared by the independent certified public accountants performing the audit.

Included within the Administration for this purpose are the following: All of the programs that are administered and/or controlled by the Administration have been included.

No entities were noted that should be considered component units of the Administration. No entities were specifically excluded from the Administration because no entities were noted as meeting any of the criteria for potential inclusion.

The Administration is a user organization of the Statewide Human Resource, Accounting, and Management Reporting System (SHARE). The service organization is the Department of Finance and Administration (DFA).

B. Basic Financial Statements – Government-Wide Statements

The basic financial statements include both government-wide (based on the Administration 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 Administration is a single purpose government entity and has no business type activities. The government-wide financial statements, the statement of net assets and the statement of activities report information on all non-fiduciary activities of an agency. 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 receivables as well as long-term debt and obligations. The

Department's net assets are reported in three parts -invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities reflects both the gross and net cost per functional categories 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. Program revenue must be directly associated with the function (public safety). Program revenues include 1) charges to applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational or capital requirements for a particular function or segment. The Administration has no revenues that meet the definition of program revenues.

When applicable, the effect of interfund activity is removed from the statement of net assets and the statement of activities in order to avoid a grossing-up effect on the assets, liabilities, revenues and expenditures.

The net cost by function is normally covered by general revenue. Since the Administration only has one program, it does not employ indirect cost allocation in the financial statements.

This government-wide focus is more on the sustainability of the Administration as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

C. Basic Financial Statements – Fund Financial Statements

The fund financial statements are similar to the financial statements presented in the previous model. Emphasis is on the major funds of the governmental category. Non-major funds are summarized into a single column. The Administration only has major funds.

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 Administration's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

The Administration's fiduciary fund is not presented in the fund financial statements since it is an agency fund type. 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 either.

The focus of the revised model is on the Administration as a whole and the fund financial statements, including the major individual fund of the governmental category, as well as the fiduciary fund by category.

The financial transactions of the Administration 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 new model sets forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combines) for the determination of major funds. The Administration has no non-major funds.

The following fund types are used by the Administration:

Government Fund Types

All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available expendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available expendable resources during a period. Revenues are available if collected within the current period or soon enough afterwards to pay liabilities of the current period. The Administration considers revenues to be available if collected within sixty days of the end of the fiscal year.

Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

General Fund - The General Fund (SHARE Fund #98200) is the general operating fund of the Administration. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is funded primarily from workers' compensation assessments paid by applicable employers throughout the state of New Mexico. The general fund is a non-reverting fund as per the Workers' Compensation Act.

Special Revenue Fund - Uninsured Employers Fund. The Uninsured Employers Fund (SHARE Fund #98300) was created by Senate Bill 771 of the 2003 New Mexico State Legislature. It is used to account for the assessments and costs related to claims of uninsured employers. This fund is presented as a major fund at the Administration's discretion. The Uninsured Employers Fund is a non-reverting fund as per Senate Bill 771.

Fiduciary Fund Types

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

Agency Fund - The Agency fund (SHARE Fund #59600) is used to account for assets held as an agent for other governmental units, individuals and other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund is the Workers Compensation-Filing Fee Fund.

D. 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 applied.

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. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, which was adopted by the Administration as of July 1, 2000.

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 to be used to pay liabilities of the current period.

Revenues from taxes are recorded when both earned and considered available, that is received within 60 days of year-end. Contributions and other monies held by ether state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are not accrued as current liabilities but as 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 tax 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 requirement are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

E. Budgets and Budgetary Accounting

Per the General Appropriation Act, Laws of 2007, Chapter 28, Section 3, item N, "For the purpose of administering the General Appropriation Act of 2007 and approving operating budgets, the state of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration." The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget. Encumbrances related to single year appropriations lapse at year end. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget.

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. Expenditures may not legally exceed appropriations for each budget at the appropriation unit level. 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 legal level of budgetary control is at the appropriation unit level.

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

1. No later than September 1, the Administration submits to the Legislative Finance Committee (LFC), and the Budget Division of the Department of Finance and Administration (DFA), an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and. the means of financing them.

2. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of those hearings is incorporated into the State's General Appropriations Act

3. The Act is then signed into Law by the Governor of the State of New Mexico within the legally prescribed time limit, at which time the approved budget becomes a legally binding document.

4. Not later than May 1, the Administration submits to DFA an annual operating budget by appropriation unit and object code based upon the appropriation made by the Legislature. The DFA-Budget Division reviews and approves the operating budget which becomes effective on July 1.

5. Formal budgetary integration is employed as a management control device during the fiscal year for the General and Special Revenue Funds. Budgets are prepared for each project within a capital projects fund. These budgets are for the entire project and may span two or more years, depending on the project.

6. The budget for the General Fund and all special revenue funds are adopted on a modified accrual basis of accounting. Per the General Appropriations Act, Laws of 2006, Chapter 109, Section 3, Subsections O and N, the budgetary basis is modified accrual. However, there is statutory exception. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable require approval to pay prior year bills out of the subsequent year's budget.

7. The original budgets differ from the final budgets presented in the budget comparison statements by amendments made during the fiscal year. All budgetary adjustments must be approved by the Department of Finance and Administration Budget Division and the Legislative Finance Committees.

8. Appropriations lapse at the end of the fiscal year for those goods and services received by June 30th.

In accordance with the requirements of Section 2.2.2.10.A(2)(b) of 2.2.2 NMAC, *Requirements for Conducting Audits of Agencies* and the allowance made by GASB 34, footnote 53, the budgetary comparison statement prepared on the modified accrual basis has been included as part of the basic financial statements.

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentations in these financial statements are consistent with this budgeting methodology.

F. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the general fund. Unused and excess encumbrances are adjusted to zero in the year it is determined the funds will not be spent.

G. 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. Actual results could differ from those estimates.

H. Compensated Absences

Qualified employees accumulate annual leave as follows:

Years of Service	Hours Earned Per Month	Days Earned Per Month	Days of Maximum Accrual
1-2	6.67	.83	30
3-6	8.00	1.00	30
7-10	9.99	1.25	30
11-14	12.00	1.50	30
15th/Beyond	13.33	1.67	30

Exempt employees accumulate annual leave as follows:

Years of Service	Hours Earned Per Month	Days Earned Per Month	Days of Maximum Accrual
0-10	9.99	1.25	30
11-14	12.00	1.50	30
15th/Beyond	13.33	1.67	30

Thirty (30) days of accrued annual leave may be carried forward into the beginning of the next calendar year, and any excess is forfeited. When employees terminate, they are compensated for accumulated annual leave as of the date of termination, up to a maximum of thirty (30) days. Accrued annual leave is recorded as a non-current liability in the government-wide financial statements.

Employees who have over 600 hours of accumulated sick leave can receive payment for hours over 600, up to 120 hours, on July 1 or January 1 of each year. However, sick leave is paid at 50% of the employee's regular hourly wage. At retirement, employees can receive 50% payment for up to 400 hours for the hours over 600 hours of accumulated sick leave. Therefore, the only sick leave which has been accrued represents the hours earned at June 30, 2008, over 600 hours up to a maximum of 120 hours.. Expenditures for accumulated sick pay for hours under 600 hours will be recognized as employees take such absences. Accrued vested sick pay is recorded as a liability in the Statement of Net Assets.

I. Reservations and Designations

Reservations of fund balance are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriated for future expenditures. Specific reservations of fund balance accounts are summarized below:

Reserved for Subsequent Years' Expenditures – In accordance with 52-5-19 SA 1978, the Workers' Compensation Assessments are set aside in the Workers' Compensation Administration Fund and the Uninsured Employers Fund. This designation represents funds the Administration expects the Legislature to budget in future years.

J. Net Assets

The government-wide and business types fund financial statements utilize a net asset presentation. Net assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

Investment in Capital Assets (net of related debt) - is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Net Assets - are liquid assets (generated from revenues and not bond proceeds), which have a legally enforceable third-party (statutory or granting agency) limitation on their use. Legally enforceable means that a government can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for purposes specified by the legislation. This includes constraints placed on the funds' use by 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.. Generally the enforceability of an enabling legislation restriction is determined by professional judgment. If it is determined that the restrictions continue to be legally enforceable, then for the purposes of financial reporting, the restricted net assets should not reflect any reduction for resources used for purposes not stipulated by the enabling legislation.

In accordance with 52-5-19 T TI SA 1978, the Workers' Compensation Assessments are set aside in the Workers' Compensation Administration Fund and the Uninsured Employers Fund. These net assets are considered restricted and do not revert to the State General Fund. When expenses are incurred for purposes for which both unrestricted and restricted funds are available, it is the policy of the Administration to first apply restricted resources.

Unrestricted Net Assets - represent unrestricted liquid assets. All net assets not otherwise classified as restricted, are shown as unrestricted..

The Administration allocates expenses to restricted or unrestricted resources based on the budgeted source of funds.

K. Interfund Activity

Interfund activity includes uninsured employer fees collected by the General Fund, and transferred to the Uninsured Employers Fund on a periodic basis. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

L. Capital Assets

Capital assets are defined in Section 12-6-10 NMSA 1978. Section 12-6-10 NMSA 1978, was amended effective June 19, 2005, changing the capitalization threshold of movable chattels and equipment to items costing more than $5,000. Capital assets purchased or acquired at a value of $5,000 or greater are capitalized. In some cases assets acquired at a value of $5,000 or less are capitalized.

Assets are carried at historical costs or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Computer software which is purchased with data processing computer equipment is included as part of the capitalized computer equipment data processing in accordance with 2.20.1.9 C (5). Also, the Department does not develop any software. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed when incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful life with no salvage value.

	Years
Furniture and Fixtures	10
Data Processing Equipment	5
Office Equipment	5

The Administration utilizes facilities and buildings that are owned by the State of New Mexico. These assets and the related depreciation expense are not included in the accompanying financial statements. GASB 34 requires the recording and depreciation of infrastructure assets, such as roads, bridges, etc. The Administration does not own any infrastructure assets. There is no debt related to capital assets.

3. Investment in State Treasurer's General Fund Investment Pool

The following is a summary of the investments in the State Treasurer General Fund Investment Pool balances by SHARE account number, as reported by the New Mexico Department of Finance and Administration (DFA):

Fund	SHARE Agency-Fund	Location	Balance Per State Treasurer	Balance Per State Agency
General Fund	63200-98200	STO	$ 10,251,731	10,251,731
Petty Cash - General Fund	63200-98200	On Site	100	100
Subtotal General Fund			10,251,831	10,251,831
Uninsured Employers Fund	63200-98300	STO	1,599,323	1,599,323
Subtotal government-wide cash and investments			11,851,154	11,851,154
Agency Fund	63200-59600	STO	2,400	2,400
Total cash and investments in SGFIP			$ 11,853,554	11,853,554

Cash/investment accounts on deposit with the New Mexico State Treasurer do not require collateral to be pledged because they are deposits with another governmental entity. The Department is not authorized to make investments. However, certain cash accounts are authorized to earn interest and are deposited by DFA into the New Mexico State Treasurer's Office Interest Bearing Pool. The pool invests in repurchase agreements secured at 102% by U. S. Treasury notes and bills, certificates of deposit, and other interest bearing instruments. Because all monies held by another governmental entity, GASB Statement #3, "Deposits with Financial Institutions Investments (Including Repurchase Agreements), and Reverse Purchase Agreements" is not applicable. Deposits do not have to be classified according to custodial credit risk. Financial statements for the State Treasurer are separately issued.

All cash/investments are on deposit with the State Treasurer. The State Treasurer has the power to invest money held in demand deposits and not immediately needed for the operation of state government in securities in accordance with Sections 6-10-10 I through P, NMSA 1978, as amended. The State Treasurer with the advice and consent of the state board of finance can invest money held in demand deposits and investments not immediately needed for the operation of state government in:

a) Securities issued by the United States (U.S.) government or by its departments or agencies and direct obligations of the U.S. or are backed by the full faith and credit of the U.S. government or agencies sponsored by the U.S. government;

b) Contracts for the present purchase and resale at a specified time in the future, not to exceed one year or, in the case of bond proceeds, not to exceed three years, of specific securities at specified prices at a price differential representing the interest income to be earned by the state. No such contract shall be invested in unless the contract is fully secured by obligations of the United States of other securities backed by the United States having a market value of at least one hundred two percent of the amount of the contract;

c) Contracts for the temporary exchange of state-owned securities for the use of broker-dealers, banks or other recognized institutional investors in securities, for periods not to exceed one year for a specified fee rate. No such contract shall be invested in unless the contract is fully secured by exchange of an irrevocable letter of credit running to the state, cash or equivalent collateral of at least one hundred two percent of the market value of the securities plus accrued interest temporarily exchanged. The collateral required for either of the forms of investment in sections (b) and (c) shall be delivered to the fiscal agent of New Mexico or its designee contemporaneously with the transfer of funds or delivery of the securities at the earliest time industry practice permits, but in all cases, settlement shall be on the same-day basis. Neither of the contracts in (b) or (c) shall be invested in unless the contracting bank, brokerage firm or recognized institutional investor has a net worth in excess of five hundred million dollars;

d) Any of the following investments in an amount not to exceed forty percent of any fund that the state treasurer invests: (1) commercial paper rated "prime" quality by a national rating service, issued by corporations organized and operating within the U.S.; (2) medium-term notes and corporate notes with a maturity not exceeding five years that are rated A or its equivalent or better by a nationally recognized rating service and that are issued by a corporation organized and operating in the U.S.; or (3) an asset-backed obligation with a maturity not exceeding five years that is rated AAA or its equivalent by a nationally recognized rating service;

e) Shares of a diversified investment company registered pursuant to the federal Investment Company Act of 1940 that invests in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b) and (d) above provided that the investment company has total assets under management of at least one billion dollars and the investments made by the State Treasurer pursuant to this paragraph are less than five percent of the assets of the investment company; or

f) Individual, common or collective trust funds of banks or trust companies that invest in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b) and (d) above provided that the investment manager has assets under management of at least one billion dollars and the investments made by the state treasurer pursuant to this paragraph are less than five percent of the assets of the individual, common or collective trust fund.

No public funds can be invested in negotiable securities or loans to financial institutions fully secured by negotiable securities at current market value shall be paid out unless there is a contemporaneous transfer of the securities at the earliest time industry practice permits, but in all cases, settlement shall be on a same-day basis either by physical delivery or, in the case of uncertificated securities, by appropriate book entry on the books of the issuer, to the purchaser or to a reputable third-party safekeeping financial institution acting as agent or trustee for the purchaser, which agent or trustee shall furnish timely confirmation to the purchaser.

Please see the State Treasurer's annual audit report for the GASB 40 disclosure of the investments. That report may be obtained by writing to the New Mexico State Treasurer's Office, P.O. Box 608, Santa Fe, NM 87504-0608.

4. Receivables

A. Due From Other State Agencies

Amounts due from other state agencies are as follows:

Due From Agency/Fund	Due To Agency/Fund		Amount	Purpose of Receivable
39400/80100	63200/98300	$	8,730	SGFIP interest receivable
Receivable from other agencies		$	8,730	

B. Due From Others

Amounts due from others are as follows:

Due To Fund	Type		Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable
General fund	WCA assessments receivable	$	113,492	-	113,492
General fund	Penalties receivable		11,500	-	11,500
Subtotal General Fund (SHARE Fund #98200)			124,992	-	124,992
UEF fund	WCA assessments receivable		10,015	-	10,015
UEF fund	UEF judgements receivable		573,675	(114,739)	458,936
Subtotal UEF Fund (SHARE Fund #98300)			583,690	(114,739)	468,951
Subtotal governmental activities			708,682	(114,739)	593,943
Agency fund	Penalties receivable		5,450	-	5,450
Subtotal agency fund			5,450	-	5,450
Receivable from others		$	714,132	(114,739)	599,393

The allowance for uncollectible accounts is based on estimated collectible balances using an analysis of outstanding accounts receivable and past collection experience.

5. Interfund Receivables/Payables

These amounts represent interfund receivables and payables arising from interfund transactions within the Administration.

		Due To	Due From
Due to fund 98300 - UEF fund (major fund)	$	6,296	
Due from fund 98200 - General fund (major fund)			6,296
Total	$	6,296	6,296

The amount owed stems from the payment from workers' compensation assessments received by the general fund and subsequently transferred to the UEF fund. The amount is expected to be repaid within the next fiscal year.

6. Capital Assets

The capital assets activity for the year ended June 30, 2008, is as follows:

Description		Balance June 30, 2007	Additions	Deletions	Adj	Balance June 30, 2008
Capital assets being depreciated:						
Office equipment		1,268,574	-	-	-	**1,268,574**
Furniture and fixtures	$	295,745	5,182	-	-	**300,927**
Data processing equipment		40,040	55,465	-	-	**95,505**
Total depreciable capital assets		1,604,359	60,647	-	-	1,665,006
Less accumulated depreciation:						
Office equipment		(1,340,808)	(10,710)	-	84,406	**(1,267,112)**
Furniture and fixtures		(150,000)	(11,087)	-	(84,406)	**(245,493)**
Data processing equipment		(466)	(9,472)	-	-	**(9,938)**
Total accumulated depreciation		(1,491,274)	(31,269)	-	-	**(1,522,543)**
Total capital assets (net)	$	113,085	29,378	-	-	142,463

The Administration does not have any debt related to capital assets at June 30, 2008. Current year depreciation expense is $31,269, which is all allocated to the general government function on the statement of activities.

7. Changes in Compensated Absences

A summary of changes in the compensated absences payable for the year ended June 30, 2008, is as follows:

Governmental Activities		Balance June 30, 2007	Increase	Decrease	Balance June 30, 2008	Current due within one year
Annual Leave	$	372,624	183,092	(209,829)	345,887	259,415
Sick Leave		1,554	137,097	(119,346)	19,305	19,305
Compensatory		6,699	125,750	(125,083)	7,366	7,366
Total	$	380,877	445,939	(454,258)	372,558	286,086

Management estimates that 75% of annual leave balances and all sick leave and compensatory leave balances are due within one year. This results in a short-term liability of $286,086 and a long-term liability of $86,472. The General Fund (SHARE Fund #98200) has paid substantially all of the compensated absences balance in prior years.

8. Operating Leases

The Administration leases office space throughout the state as well as copiers and vehicles. All leases may be terminated at any time with sixty days notice if the New Mexico Legislature does not grant sufficient appropriation for the lease or if the Administration decides that termination is necessary to protect the best interests of the State of New Mexico.

Buildings and Structures
The Administration leases office space at six locations throughout the State. The terms of the leases are from one to five years with additional renewal periods at the end of each lease. All leases contain fiscal funding clauses.

Machinery & Equipment
The Administration leases various copiers and postage machines. The terms of the leases run from four to five years. The leases on the copy machines also provide for maintenance and copy charges. All leases contain fiscal funding clauses.

Vehicles
The Agency leases 16 vehicles on an annual basis from the New Mexico General Services Department.

The cumulative expenditures for operating leases for the year ended June 30, 2008, were $358,248. Future minimum rental payments under these operating leases are as follows:

For the Year Ended June 30		Total
2009	$	264,257
2010		272,706
2011		120,737
2012		67,670
2013		24,833
Thereafter		8,641
Total	**$**	**758,844**

8. PERA Pension Plan

Plan Description. Substantially all of the Workers' Compensation Administration 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, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 7.42% of their gross salary. The Department is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the (name of employer) are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Workers' Compensation Administration's contributions to PERA for the years ending June 30, 2008, 2007, and 2006 were $989,183, $934,702, and $888,752, respectively equal to the amount of the required contributions for each year.

9. Post-Employment Benefits

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

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

The 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. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The Administration's contributions to the RHCA for the years ended June 30, 2008, 2007 and 2006 were $77,514, $73,276 and $69,643, respectively, which equal the required contributions for each year.

10. Interagency Transfers & Other Financing Sources (Uses)

The Department made/received the following transfers during the fiscal year:

Transferring Agency/Fund	Receiving Agency/Fund		Amount	Purpose of Transfer/Laws
Transfers In				
33300/83100	63200/98200	$	11,463,158	Workers' comp assessments collected by other agency
33300/83100	63200/98200		123,506	Workers' comp assessments receivable as of June 30, 2008
39400/98200	63200/98200		557,079	Workers' comp assessments collected by other agency
			12,143,743	Subtotal amounts received or receivable
			(941,577)	Less amounts transferred to WCA fund 98300
Subtotal Fund 98200			11,202,166	This amount is reported on the fund financials as revenues
39400/80100	63200/98300		33,919	SGFIP interest - reported as miscellaneous revenues
39400/41000	63200/98300		8,829	SGFIP interest - reported as miscellaneous revenues
39400/41000	63200/98300		8,730	SGFIP interest - receivable as of June 30, 2008
Subtotal Fund 98300			51,478	
Total interagency transfers ir		$	11,253,644	
33300/83100	63200/98200		320,531	Workers' comp assessments collected by other agency
39400/80100	63200/98300		12,810	SGFIP interest
Total payments on receivables from prior years		$	333,341	
Transfers Out				
63200/98200	63100/33305	$	691,500	General Appropriation Act of 2007 - Laws 2008, Ch 28, Sec 4
Total other financing uses		$	691,500	
Agency Fund Activity				
63200/59600	34101/85300	$	80,307	Transfer Workers' Comp Penalties collected by the agency
Total interagency transfers from agency fiduciary fund		$	80,307	

11. Interfund Transfers

The interfund transfers are as follows:

Transferring Fund	Receiving Fund		Amount	Purpose of Transfer
98200	98300	$	957,884	Transfer Fund 983's portion of WCA assessments
			10,014	Add amount receivable from other state agencies at year end
			(26,321)	Less prior year receivable from other state agencies collected during the year
Total intrafund transfers		$	941,577	This amount is reported on the fund financials as revenues

12. Contingent Liabilities

The Administration, 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. Annual premiums are paid to the Office of Risk Management Division for coverage provide in the following areas:

1. Liability and civil rights protection for claims made by others against the State of New Mexico.

2. Coverage's to protect the State of New Mexico's property and assets.

3. Fringe benefit coverage's for State of New Mexico employees.

The Administration is currently involved in pending legal matters. Although the possibility of loss exists in some of these cases, any potential loss would likely be covered either by insurance (through Risk Management Division) or would not be material. Therefore, no liability has been recorded in the financial statements.

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2008

	SHARE Fund		Balance 30-Jun-07	Additions	Deletions	Balance 30-Jun-08
Agency Fund	596					
Assets						
Cash		$	3,250	79,457	(80,307)	2,400
Accounts receivable			21,500	5,450	(21,500)	5,450
Total assets			24,750	84,907	(101,807)	7,850
Liabilities						
Deposits held in custody for others			24,750	84,907	(101,807)	7,850
Total liabilities		$	24,750	84,907	(101,807)	7,850

See Notes to Financial Statements.

OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
SCHEDULE OF JOINT POWERS AGREEMENTS AND MEMORANDUMS OF UNDERSTANDING
FOR THE YEAR ENDED JUNE 30, 2008

Participants	Responsible Party for Operations	Description	Beginning & Ending Dates	Total Estimated Amount of Project	Agency Contributions in FY 2008	Revenues & Expenditures Reported On By:	Audit Responsibility
Workforce Solutions Deparment	WSD	Provide employement data	Open	$ -	-	WFS & WCA	Both
NM Taxation and Revenue Deparment	TRD	Collect and remit WCA assessment fees	Open	-	-	TRD	TRD

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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*

Mr. Hector H. Balderas,
New Mexico State Auditor
and
State of New Mexico
Workers' Compensation Administration

We have audited the accompanying financial statements of the governmental activities, each major fund, the respective budgetary comparisons, and the aggregate remaining fund information of the Workers' Compensation Administration (the Administration) as of and for the year ended June 30, 2008, which collectively comprise the Administration's basic financial statements, and have issued our report thereon dated October 5, 2009. 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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Administration's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Administration's financial statements that is more than inconsequential will not be prevented or detected by the Administration's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 05-02, 07-03, and 08-01.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Administration's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-03 and 08-01 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Administration'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 05-01, 05-02, and 07-02.

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

This report is intended solely for the information and use of the Workers' Compensation Administration management, others within the agency, the audit committee, the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

Hinkle + Landers, P.C.

Hinkle & Landers, P.C.
October 5, 2009

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2008

Finding	Status of Current and Prior Year Findings
Prior Year Findings	
05-01 CASH RECEIPTS NOT DEPOSITED TIEMLY	Modified/Repeated
05-02 INVENTORY OF CAPITAL ASSETS	Modified/Repeated
07-01 PAYROLL ACCRUALS	Resolved
07-02 LATE AUDIT REPORT	Modified/Repeated
07-03 SAS 112 MATERIAL ADJUSTMENTS BY AUDITORS	Modified/Repeated
Current Year Findings	
08-01 TIMELY RECORDING OF ACCOUNTS RECEIVABLE	Current

PRIOR YEAR FINDINGS – MODIFIED AND REPEATED IN CURRENT YEAR

05-01 – CASH RECEIPTS NOT DEPOSITED TIMELY – MODIFIED/REPEATED

Statement of Condition:
We noted that out of 25 cash receipts selected for testing, 1 was not deposited timely. The receipt to the customer was issued on December 5, 2007, but was not transferred to accounting and deposited until December 11, 2007. Once received by accounting, the funds were deposited immediately. Additional, discussion with WCA personnel revealed that steps had been taken to address timeliness of deposits in April 2008 upon issuance of the FY07 audit and related findings. No late deposits were noted for having occurred after that date.

Criteria:
New Mexico Statutes Annotated, 1978, Section 6-10-3 requires that deposits be made the next business day after receipt.

Effect:
Workers' Compensation is not in compliance with state law and there is an increased risk for potential for revenue losses due to theft and/or lost/misplaced deposits.

Cause:
Cash receipts were not deposited in a timely manner due to a delay in the transfer of funds received by the cashiers to the accounting department for deposit.

Recommendation:
We recommend that management review cash receipts on a daily basis to ensure deposits are made timely. Attempts should be made to ensure that cash is transferred to accounting for deposit each day and not delayed prior to reaching the accounting department.

Management's Response:
The finding repeated during FY 08 the cash receipt not timely deposited was for $4.25 was received in the Clerk of the Court's Bureau. The clerk of the court's standard operating procedure is any money received during the day up to close of business will be submitted the accounting bureau first thing the next work day, the accounting bureau will deposit all money on the day they receive it. Management will discuss our standard operating procedure and the auditor's recommendation at our SMC meetings, should we identify a better procedure to ensure that this does not happen again we will make appropriate changes to our procedure. We will continue to inform all appropriate WCA staff of the 24hr deposit requirement to ensure deposits are made timely.

05-02 – INVENTORY OF CAPITAL ASSETS – MODIFIED/REPEATED

Statement of Condition
Workers' Compensation Administration does not maintain an inventory of its capital assets complete with depreciation. Annual inventories of capital assets are not conducted and certified by appropriate personnel.

Criteria:
Generally accepted accounting principles and State statutes require the agency maintain an accurate listing of all its capital assets complete with depreciation. (12-6-10 NMSA 1978).

Effect:
Lack of a depreciated capital assets listing makes it necessary to use estimates to determine the annual depreciation for the government-wide financial statements. This increases the potential for loss of capital assets to due to theft or improper record keeping as well as increasing the likelihood of misstated financial statements.

Cause:
The client has not dedicated sufficient time and resources to perform its annual capital asset inventory.

Recommendation:
It is recommended that the client perform a complete inventory of its capital assets and identify those that should be capitalized under the current state statute. A complete listing of capital assets should be created and maintained that allows for the calculation of annual and accumulated depreciation expense.

We also recommend dedicating an employee to oversee the capital asset inventory process and ensure that annual inventories are completed in accordance with state statute.

Management's Response:
We are short staffed in the accounting bureau. We will request approval to fill a position in the month of October 2009 and dedicate the staff support required to resolve this finding by June 30, 2010. We will also request the assistance of the contracted auditors so we may implement the auditor's recommendation.

07-02 LATE AUDIT REPORT – MODIFIED/REPEATED

Statement of Condition:
The Administration submitted their audit report to the State Auditor after December 15, 2008. The contract for the FY08 audit was not issued until June 19, 2009. The Administration submitted the audit

report to the State Auditor on October 6, 2009, approximately 10 months after the required submission date of December 15, 2008.

Criteria:
2.2.2.9A NMAC (State Auditor Rule) outlines due dates for state government audit reports. The final due date for state agencies is December 15.

Effect:
The Administration is not in compliance with state statute. The users of the financial statements such as legislators, creditors, bondholders, state and federal grantors, etc. do not have timely audit reports and financial statements for their review. Ultimately, late reports could have an effect on state and federal funding levels.

Cause:
The Administration was not prepared for the audit prior to the December 15, 2008 deadline.

Recommendation:
We recommend the Administration institute controls that will enable it to prepare for their annual audit in a timely manner.

Managements Response:
We will have a new audit contract for FY 2009 to the auditors within the next two weeks and expect the audit be completed by December 15, 2009. This will stop the late audit finding.

07-03 SAS 112 MATERIAL ADJUSTMENTS BY AUDITOR – MODIFIED/REPEATED

Statement of Condition
During our audit we made several adjustments to the Administration's books that SAS 112 requires to be reported as a finding. Adjustments were made to accounts receivable that totaled in excess of $512,000. While the fact that there were potential errors in accounts receivable was initially brought to the auditor's attention by Administration personnel, the highly material nature of the unrecorded receivables and the seeming breakdown in the process of identifying and recording receivables indicated that the internal controls in place for identifying and recording receivables in a timely manner were not consistently effective during the year ended June 30, 3008.

In addition, other AJES were made to adjust the receivables in the Administration's agency fund (SHARE Fund #59600) that totaled $5,450, which exceeded the materiality of the fund that was established at $400.

AJEs were also made to the Administration's fund balance accounts to reclassify client entries that were recorded erroneously. The most significant of these were a $38,000 entry to adjust postage expenses and a $26,000 to reestablish the allowance for doubtful accounts that was removed by the client during the year.

Criteria
Statement of Auditing Standards (SAS) 112 was implemented as of December 15, 2006. Some of the key underlying concepts of this standard are

- The auditor cannot be part of a client's internal control. Becoming part of a client's internal control impairs the auditor's independence.
- What the auditor does is independent of the client's internal control over financial reporting. Therefore, the auditor cannot be a compensating control for the client.
- A system of internal control over the financial reporting does not stop at the general ledger; rather it includes controls over the preparation of the financial statements.

Recording these adjustments is considered a significant process that the client needs to maintain. Also since significant adjustments to the financials were made it calls into question whether the Agency staff has the qualifications and training to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements.

Effect
Because these adjustments were made/identified by the auditor, and not by the Department, it shows an internal control weakness in maintaining the general ledger and would potentially extend to the financial statements This significantly increases the potential for materially misstated financial statements.

Cause
The Administration's personnel and internal control procedures were not effective in identifying and correcting material errors to the general ledger that would have resulted in material misstatement of the financial statements had they not been corrected by the auditor.

Recommendation
We recommend that the Administration make adjustments to their general ledger in a timely manner. Asking for technical advice from the auditor or from someone else when these adjustments are needed is not considered a control deficiency as long as the staff of the Administration initiates/makes the adjustment and understands how and why the adjustments were made.

Management Response
We will make sure that all adjustments identified by the auditors are correctly understood by the Financial Manager and properly made.

CURRENT YEAR FINDINGS – NEW

08-01 TIMELY RECORDING OF ACCOUNTS RECEIVABLE

Statement of Condition
While conducting the audit of the Administration's accounts receivables for the UEF fund (SHARE Fund #98300), it was noted that receivables totaling $512,712 were not recorded during the year. While the client had a schedule showing these receivables, the G/L was not updated to reflect the changes. In

addition, the associated allowance for doubtful accounts was also not updated to reflect the potential uncollectible nature of the receivables.

Additional discussion with the client about the receivables revealed that in the case of penalty receivables, the information relating the amounts due was often not transmitted timely to the finance department. They indicated that there were times when they only heard about receivables once payments were actually received on the outstanding amounts. While a schedule of penalties receivables is obtained from the General Counsel at the time of the annual audit, it would seem that communication between the two departments regarding receivable amounts was not consistently effective.

Criteria
Revenue recognition is a key principal in US generally excepted accounting principals is the timely entry of recordable transactions into the general ledger. Under the modified accrual basis of accounting this holds that revenues and consequently, receivables are recognized when they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the current fiscal period.

Effect
The potential exists for receivables to go unrecorded in the general ledger, which could cause the financial statements to be materially misstated. In addition, by not recording receivables timely, revenue is ultimately understated which could have budgetary consequences if the information is relied upon when developing future budgets or evaluating financial performance.

Cause
The amounts and specific details of the accounts receivables were not transmitted to the finance department in a timely manner, which caused delays in recording the amounts and concern over the actual amount of the receivable to record.

Recommendation
It is recommended that receivables are recorded into the G/L in a timely manner and that communication between the finance department and UEF personnel and/or General Council allow for the timely and complete transfer of information relating to receivables owed to the Administration for proper entry into the general ledger and subsequently the financial statements.

Management Response
Management will discuss the auditor's recommendation and implement a procedure which will provide the accounting bureau the appropriate documentation needed to timely record the receivables. The procedure will be implemented in October 2009.

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2008

The contents of this report were discussed in an exit conference held on October 5, 2009, attended by the following individuals:

Workers' Compensation Administration:

Glenn R. Smith	Director
Abelino Montoya, Jr.	Executive Deputy Director
Ida Alvarado	Financial Manager
Staci Tullar	Procurement Officer

Hinkle & Landers, P.C.

Nick Landers, CPA	Managing Partner
Erick Robinson, CPA	Audit Manager

Financial Statement Preparation

Hinkle & Landers P.C. substantially prepared the accompanying financial statements, however the financial statements are the responsibility of Workers' Compensation Administration management.