

**STATE OF NEW MEXICO
WORKERS' COMPENSATION
ADMINISTRATION**

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2009**

HINKLE & LANDERS, P.C.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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WORKERS' COMPENSATION ADMINISTRATION
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FOR THE YEAR ENDED JUNE 30, 2009**

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**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
OFFICIAL ROSTER
JUNE 30, 2009**

Glenn R. Smith	Director
Abelino Montoya	Executive Deputy Director
Laura Feight	Deputy Director – Internal Operations
Elaine Trujillo	Deputy Director – External Operations
Ida Alvarado	Chief Financial Officer
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, 2009, 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, 2009, 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, 2009, 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, 2009, 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, 2009, 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 December 10, 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.

A handwritten signature in cursive script that reads "Hinkle & Landers, P.C.".

Hinkle & Landers, P.C.
December 10, 2009

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2009**

ASSETS	Governmental Activities
Current assets:	
Investment in State Treasurer General	
Fund Investment Pool	\$ 8,051,386
Petty cash	100
Prepaid expenses	50,460
Receivables of penalties and assessments, (net)	801,476
Receivable from other governments	316
Total current assets	8,903,738
Noncurrent assets:	
Capital assets, net	149,537
Total noncurrent assets	149,537
Total assets	\$ 9,053,275
 LIABILITIES	
Current liabilities:	
Accounts payable	\$ 91,922
Accrued payroll and related liabilities	388,918
Compensated absences-current	316,212
Total current liabilities	797,052
Long-term liabilities:	
Compensated absences-long-term	97,307
Contingent liability - UEF claims	-
Total long-term liabilities	97,307
Total liabilities	894,359
 NET ASSETS	
Invested in capital assets	149,537
Restricted	
Special revenue funds	2,434,859
Unrestricted	5,574,520
Total net assets	8,158,916
Total liabilities and net assets	\$ 9,053,275

See Notes to Financial Statements.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Governmental Activities</u>
Program Expenses	
General governmental	\$ 11,101,473
Depreciation	<u>43,364</u>
Total program expenses	<u>11,144,837</u>
General Revenues	
Workers' Compensation assessments	12,989,520
Penalties	<u>167,987</u>
Total general revenues	13,157,507
Transfers	
Interagency transfers in/(out)	<u>(5,691,500)</u>
Change in net assets	<u>(3,678,830)</u>
Beginning net assets	11,749,496
Restatement	<u>88,250</u>
Beginning net assets, as restated	<u>11,837,746</u>
Ending net assets	<u><u>\$ 8,158,916</u></u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF JUNE 30, 2009**

ASSETS	General Fund	Uninsured Employers Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Investment in State Treasurer General			
Fund Investment Pool	\$ 6,152,262	1,899,124	8,051,386
Petty cash	100	-	100
Prepaid expenses	50,460	-	50,460
Receivables of penalties and assessments, net	255,853	545,623	801,476
Due from other agencies	-	316	316
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 6,458,675</u>	<u>2,445,063</u>	<u>8,903,738</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 81,718	10,204	91,922
Accrued payroll and related liabilities	388,918	-	388,918
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>470,636</u>	<u>10,204</u>	<u>480,840</u>
Fund balance			
Reserved for:			
Petty cash	100	-	100
Prepaid expenses	50,460	-	50,460
Unreserved reported in:			
General fund	5,937,479		5,937,479
Special Revenue Funds		2,434,859	2,434,859
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>5,988,039</u>	<u>2,434,859</u>	<u>8,422,898</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 6,458,675</u>	<u>2,445,063</u>	<u>8,903,738</u>

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, 2009**

Fund balances - total governmental funds	\$ 8,422,898
Amounts reported for governmental activities in the statement of net assets are different because:	
Governmental capital assets, net of accumulated depreciation	149,537
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds	
Contingent liabilities - UEF claims	<u>-</u>
Compensated absences	<u>(413,519)</u>
Net assets of governmental activities	\$ <u><u>8,158,916</u></u>

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, 2009**

	<u>General Fund</u>	<u>Uninsured Employers Fund</u>	<u>Total</u>
Revenues			
Other state funds			
Workers' compensation assessments	\$ 12,022,652	966,868	12,989,520
Penalties	2,344	165,643	167,987
Total revenues	<u>12,024,996</u>	<u>1,132,511</u>	<u>13,157,507</u>
General government expenditures			
Current expenditures			
Personal services	8,781,405	-	8,781,405
Contract services	292,050	10,002	302,052
Other costs	1,258,802	754,412	2,013,214
Capital outlay	14,279	-	14,279
Total expenditures	<u>10,346,536</u>	<u>764,414</u>	<u>11,110,950</u>
Excess (deficiency) of revenue over expenditures	<u>1,678,460</u>	<u>368,097</u>	<u>2,046,557</u>
Other financing sources (uses)	<u>(5,691,500)</u>	<u>-</u>	<u>(5,691,500)</u>
Net change in fund balance	<u>(4,013,040)</u>	<u>368,097</u>	<u>(3,644,943)</u>
Beginning fund balance	9,912,829	2,066,762	11,979,591
Restatement	88,250	-	88,250
Beginning fund balance, as restated	<u>10,001,079</u>	<u>2,066,762</u>	<u>12,067,841</u>
Ending fund balance	<u>\$ 5,988,039</u>	<u>2,434,859</u>	<u>8,422,898</u>

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, 2009**

Net change in fund balances - total governmental funds \$ (3,644,943)

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	\$ 50,438	
Less current year depreciation	<u>(43,364)</u>	7,074

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	(40,961)
Differences due to rounding	<u>-</u>

Net change in net assets - governmental activities \$ (3,678,830)

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
STATEMENT OF REVENUES AND
EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Workers' compensation assessment	\$ 11,571,700	11,571,700	12,022,652	450,952
Miscellaneous Revenues	-	30,100	2,344	(27,756)
Total revenues	11,571,700	11,601,800	12,024,996	423,196
Expenditures				
Personal services	9,179,400	9,209,500	8,781,405	428,095
Contractual services	352,600	352,600	292,050	60,550
Other	1,348,200	1,348,200	1,272,746	75,454
Total expenditures	10,880,200	10,910,300	10,346,201	564,099
Excess (deficiency) of revenues over expenditures	691,500	691,500	1,678,795	987,295
Other Financing Sources (Uses)				
Designated cash	-	5,000,000	-	(5,000,000)
Interagency transfer	(691,500)	(5,691,500)	(5,691,500)	-
Net interagency transfers and financial sources (uses)	(691,500)	(691,500)	(5,691,500)	(5,000,000)
Net change in fund balance	-	-	(4,012,705)	(4,012,705)
Beginning fund balance	-	-	9,912,829	-
Restatement	-	-	88,250	-
Beginning fund balance, as restated	-	-	10,001,079	-
Fund balance, end of year	\$ -	-	5,988,374	(4,012,705)

Reconciliation of Budgetary Basis to Fund Financial Statement

Total budget basis expenditures for fiscal year 2009:	\$ 10,346,201
Adjustments:	
Accounts payable that required a request to pay prior-year bills out of the FY2010 budget	335
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2009:	\$ <u>10,346,536</u>

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, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Workers' compensation assessment	\$ 1,169,100	1,169,100	966,868	(202,232)
Miscellaneous Revenues	<u>-</u>	<u>-</u>	<u>165,643</u>	<u>165,643</u>
Total revenues	<u>1,169,100</u>	<u>1,169,100</u>	<u>1,132,511</u>	<u>(36,589)</u>
Expenditures				
Personal services	-	-	-	-
Contractual services	100,000	100,000	10,002	89,998
Other	<u>1,069,100</u>	<u>1,069,100</u>	<u>754,412</u>	<u>314,688</u>
Total expenditures	<u>1,169,100</u>	<u>1,169,100</u>	<u>764,414</u>	<u>404,686</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>368,097</u>	<u>368,097</u>
Net change in fund balance	\$ -	-	368,097	368,097
Beginning fund balance	<u>-</u>	<u>-</u>	<u>2,066,762</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>2,434,859</u></u>	<u><u>368,097</u></u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND
 AS OF JUNE 30, 2009**

	SHARE Fund <u>59600</u>
Assets	
Investment in State Treasurer General	
Fund Investment Pool	\$ 5,426
Accounts receivable	<u>2,825</u>
Total assets	<u><u>\$ 8,251</u></u>
 Liabilities	
Due to State General Fund	<u><u>\$ 8,251</u></u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

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 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, programs and activities over which the 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."

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
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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.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

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

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

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 against 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.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

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-Penalty 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 other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

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

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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.

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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.

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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 <u>Per Month</u>	Days Earned <u>Per Month</u>	Days of Maximum <u>Accrual</u>
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 <u>Per Month</u>	Days Earned <u>Per Month</u>	Days of Maximum <u>Accrual</u>
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, 2009, 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.

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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..

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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.

	<u>Years</u>
Furniture and Fixtures	5-20
Information Technology Equipment	5-10
Office Equipment	5-10

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.

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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):

<u>Fund</u>	<u>SHARE</u> <u>Agency-Fund</u>	<u>Location</u>	<u>Balance Per</u> <u>State</u> <u>Treasurer</u>	<u>Balance Per</u> <u>State</u> <u>Agency</u>
General Fund	63200-98200	STO	\$ 6,152,262	6,152,262
Petty Cash - General Fund	63200-98200	On Site	100	100
Subtotal General Fund			<u>6,152,362</u>	<u>6,152,362</u>
Uninsured Employers Fund	63200-98300	STO	1,899,124	1,899,124
Subtotal government-wide cash and investments			<u>8,051,486</u>	<u>8,051,486</u>
 Agency Fund	 63200-59600	 STO	 5,426	 5,426
Total cash and investments in SGFIP			<u>\$ 8,056,912</u>	<u>8,056,912</u>

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

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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.

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4. Receivables

A. Due From Other State Agencies

Amounts due from other state agencies are as follows:

<u>Due From Agency/Fund</u>	<u>Due To Agency/Fund</u>	<u>Amount</u>	<u>Purpose of Receivable</u>
39400/80100	63200/98300	\$ 316	SGFIP interest receivable

B. Due From Others

Amounts due from others are as follows:

<u>Due To Fund</u>	<u>Type</u>	<u>Accounts Receivable</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Accounts Receivable</u>
General fund	WCA assessments receivable	\$ 255,353	-	255,353
General fund	Penalties receivable	500	-	500
Subtotal General Fund (SHARE Fund #98200)		255,853	-	255,853
UEF fund	WCA assessments receivable	22,531	-	22,531
UEF fund	UEF judgments receivable	653,865	(130,773)	523,092
Subtotal UEF Fund (SHARE Fund #98300)		676,396	(130,773)	545,623
Subtotal governmental activities		932,249	(130,773)	801,476
Agency fund	Penalties receivable	2,825	-	2,825
Subtotal agency fund		2,825	-	2,825
Due from others		\$ 935,074	(130,773)	804,301

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

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5. Capital Assets

The capital assets activity for the year ended June 30, 2009, is as follows:

<u>Description</u>	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adj</u>	<u>Balance June 30, 2009</u>
Capital assets being depreciated:					
Office equipment	\$ 1,268,574	36,159	(1,082,340)	(125,920)	96,473
Furniture and fixtures	300,927	-	(238,121)	(31,120)	31,686
Information technology equipment	95,505	14,279	-	157,040	266,824
Total depreciable capital assets	<u>1,665,006</u>	<u>50,438</u>	<u>(1,320,461)</u>	<u>-</u>	394,983
Less accumulated depreciation:					
Office equipment	(1,267,111)	(11,467)	1,082,340	143,886	(52,352)
Furniture and fixtures	(243,879)	(3,758)	238,121	-	(9,516)
Information technology equipment	(11,552)	(28,139)	-	(143,886)	(183,577)
Total accumulated depreciation	<u>(1,522,542)</u>	<u>(43,364)</u>	<u>1,320,461</u>	<u>-</u>	(245,445)
Total capital assets (net)	<u>\$ 142,464</u>	<u>7,074</u>	<u>-</u>	<u>-</u>	149,538

The Administration does not have any debt related to capital assets at June 30, 2009. Current year depreciation expense is \$43,364, which is all allocated to the general government function on the statement of activities. Certain reclassifications between capital asset types were made during the year to correct asset balances.

6. Changes in Compensated Absences

A summary of changes in the compensated absences payable for the year ended June 30, 2009, is as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2008</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2009</u>	<u>Current due within one year</u>
Annual Leave	\$ 345,887	189,212	(145,872)	389,227	291,920
Sick Leave	19,305	152,931	(154,859)	17,377	17,377
Compensatory	7,366	131,793	(132,244)	6,915	6,915
Total	<u>\$ 372,558</u>	<u>473,936</u>	<u>(432,975)</u>	<u>413,519</u>	<u>316,212</u>

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 \$316,212 and a long-term liability of \$97,307. The General Fund (SHARE Fund #98200) has paid substantially all of the compensated absences balance in prior years.

7. 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.

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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, 2009, were \$352,218. Future minimum rental payments under these operating leases are as follows:

<u>For the Year</u> <u>Ended June 30</u>	<u>Total</u>
2010	\$ 272,706
2011	120,737
2012	67,670
2013	24,833
2014	-
Total	\$ 485,946

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, 2009, 2008, and 2007 were \$1,020,891, \$989,183, and \$934,702, respectively equal to the amount of the required contributions for each year.

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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.

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The Administration's contributions to the RHCA for the years ended June 30, 2009, 2008 and 2007 were \$76,928, \$77,514 and \$73,276, 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:

<u>Transferring Agency/Fund</u>	<u>Receiving Agency/Fund</u>	<u>Amount</u>	<u>Purpose of Transfer/Laws</u>
Inter-Agency Transfers In			
33300/83100	63200/98200	\$ 11,656,849	Workers' comp assessments collected by other agency
33300/83100	63200/98200	255,353	Workers' comp assessments receivable as of June 30, 2009
39401/98200	63200/98200	1,064,801	Workers' comp assessments collected by other agency
		<u>12,977,003</u>	Subtotal amounts received or receivable
		(954,351)	Less amounts transferred to WCA fund 98300
		<u>12,022,652</u>	This amount is reported on the fund financials as revenues in Fund 982
43000/55000	63200/98200	<u>88,250</u>	Return funds from PRC not expended under MOU - shown as restatement in fund financials
	Subtotal Fund 98200	12,110,902	
39400/80100	63200/98300	11,525	SGFIP interest - reported as miscellaneous revenues
33300/83100	63200/98200	22,531	Workers' comp assessments receivable as of June 30, 2009
39400/41000	63200/98300	316	SGFIP interest - receivable as of June 30, 2009
	Subtotal Fund 98300	<u>34,372</u>	Subtotal amounts received or receivable
	Total transfers in	<u>\$ 12,145,274</u>	
33300/83100	63200/98200	113,492	Workers' comp assessments collected by other agency
39401/80100	63200/98300	<u>8,730</u>	SGFIP interest
	Total payments on receivables from prior years	<u>\$ 122,222</u>	
Inter-Agency Transfers Out			
63200/98200	63100/32900	\$ 691,500	General Appropriation Act of 2008 - Laws 2009, Ch 3, Sec 4
63200/98200	34101/85300	<u>5,000,000</u>	SB 79 - Laws 2009, Chapter 3, Section 4
	Total other financing uses	<u>\$ 5,691,500</u>	
Agency Fund Activity			
63200/59600	34101/85300	<u>\$ 22,107</u>	Transfer Workers' Comp Penalties collected by the agency
	Total interagency transfers from agency fiduciary fund	<u>\$ 22,107</u>	

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

11. Interfund Transfers

The interfund transfers are as follows:

<u>Transferring Fund</u>	<u>Receiving Fund</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
98200	98300	\$ 954,351	Transfer Fund 983's portion of WCA assessments
		22,531	Add amount receivable from other state agencies at year end
		<u>(10,014)</u>	Less prior year receivable from other state agencies collected during the year
Total intrafund transfers		<u>\$ 966,868</u>	This amount is reported on the fund financials as revenues in Fund 983

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.

The Administration's UEF fund has amounts outstanding for future costs related to open UEF cases. Per Section 52-1-9.1H NMSA 1978 the liability of the state, the workers' compensation administration and the state treasurer, with respect to payment of any compensation benefits, expenses, fees or disbursement properly chargeable against the uninsured employers' fund, is limited to the assets in the uninsured employers' fund, and they are not otherwise liable for any payment. Per this statute, the UEF claim liability is limited to the net assets available within the fund. Due to the liability limitations under the existing state law and the potential impact ongoing operations and other permitted activities might have on the UEF fund's net assets, no associated liability has been recognized in the accompanying financial statements

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

13. Restatements

The Administration's net assets required restatements for the following:

<u>Fund</u>	<u>Fund Description</u>	<u>Reason</u>	<u>Amount</u>
98200	General Fund	To return amount appropriated in prior years for MOU not expended	\$ <u><u>88,250</u></u>

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>SHARE Fund</u>	<u>Balance 30-Jun-08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 30-Jun-09</u>
Agency Fund	596				
Assets					
Cash		\$ 2,400	25,133	(22,107)	5,426
Accounts receivable		5,450	3,575	(6,200)	2,825
Total assets		<u>7,850</u>	<u>28,708</u>	<u>(28,307)</u>	<u>8,251</u>
Liabilities					
Deposits held in custody for others		7,850	28,708	(28,307)	8,251
Total liabilities		<u>\$ 7,850</u>	<u>28,708</u>	<u>(28,307)</u>	<u>8,251</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 SCHEDULE OF JOINT POWERS AGREEMENTS AND MEMORANDUMS OF UNDERSTANDING
 FOR THE YEAR ENDED JUNE 30, 2009**

<u>Participants</u>	<u>Responsible Party for Operations</u>	<u>Description</u>	<u>Beginning & Ending Dates</u>	<u>Total Estimated Amount of Project</u>	<u>Agency Contributions in FY 2009</u>	<u>Revenues & Expenditures Reported On By:</u>	<u>Audit Responsibility</u>
Workforce Solutions Department	WSD	Provide employment data	Open	\$ -	-	WFS & WCA	Both
NM Taxation and Revenue Department	TRD	Collect and remit WCA assessment fees	Open	-	-	TRD	TRD
Regulation and Licensing Dept	RLD	Employee on loan as mediator	12/15/2008 - 2/28/2009	10,350	10,350	WCA	WCA

Hinkle & Landers, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Albuquerque, NM 87102
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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, 2009, which collectively comprise the Administration's basic financial statements, and have issued our report thereon dated December 10, 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.

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.

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

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, and 05-02.

We noted other certain matters that are required to be reported under *Government Auditing Standards* paragraph 5.14 and 5.16 and Section 12-6-5 NMSA 1978, which is described in the accompanying schedule of findings and responses as finding 09-01.

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.
December 10, 2009

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Finding</u>	<u>Status of Current and Prior Year Findings</u>
Prior Year Findings	
05-01 CASH RECEIPTS NOT DEPOSITED TIMELY	Modified/Repeated
05-02 INVENTORY OF CAPITAL ASSETS GREATER THAN \$5,000	Modified/Repeated
07-02 LATE AUDIT REPORT	Resolved
07-03 SAS 112 MATERIAL ADJUSTMENTS BY AUDITORS	Resolved
08-01 TIMELY RECORDING OF ACCOUNTS RECEIVABLE	Resolved
Current Year Findings	
09-01 ROLL-FORWARD PROCESS FOR UEF RECEIVABLES	Current

CURRENT FINDINGS – INCLUDES REPEATED PRIOR FINDINGS

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 November 14, 2008, but was not transferred to accounting and deposited until November 24, 2008. Inquiry with accounting personnel revealed that they were unaware of the delay in depositing the funds. It was not able to be determined where the delay occurred, if it was in the accounting department or if it occurred prior to accounting receiving the funds for deposit..

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 WCA has processes in place requiring all moneys received for the WCA by mail, by the clerk of the court bureau or by any one else in the WCA must be take to the accounting for depositing within 24hr.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2009**

05-02 – INVENTORY OF CAPITAL ASSETS GREATER THAN \$5,000– MODIFIED/REPEATED

Statement of Condition

While performing audit procedures on the Administration's capital assets, it was observed that the agency had updated its capital asset listing of items greater than \$5,000. This was a marked improvement over prior years when the list was not maintained. It was observed however, that the agency had not certified the inventory in accordance with State statutes for the year ended June 30, 2009. 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 greater than \$5,000 complete with depreciation. (12-6-10 NMSA 1978).

Effect:

The agency is not in compliance with state statute and the potential for material misstatements related to capital assets exists due to potentially inaccurate or incomplete inventory listings.

Cause:

The Administration did not address the capital asset issue until the very end of the fiscal year and as a result was not able to certify the inventory listing for that year.

Recommendation:

It is recommended that the client follow state statute and perform an annual inventory of its capital assets greater than \$5,000. The inventory should be certified as complete by senior management of the Administration.

Management's Response:

We have updated the inventory listing in December 2009 and it will be certified by senior management. We are in the process of hiring staff to assist in fulfilling this function in the future.

09-01 – ROLL-FORWARD PROCESS FOR UEF RECEIVABLES

Statement of Condition

While performing the audit for FY09, it was observed that the Administration made adjustments at year end to record outstanding receivables. However while reviewing the FY08 ending balances to ensure that those amounts not collected were rolled forward to FY09, it was observed that UEF agreement receivables totaling \$334,810 were not included in the amounts brought forward. Additional procedures showed that when the excel spreadsheet used to track the receivables was brought forward for 2009, one agreement was inadvertently excluded and not added to the current year's list.

Criteria

Proper accounting procedures hold that beginning accruals and deferrals for a period should match the prior year ending accruals and deferrals. Controls over the accounting system and any sub-ledgers should be of a degree to ensure consistency of data from one period to the next.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2009**

Effect

The potential exists for receivables to go unrecorded in the general ledger, which could cause the financial statements to be materially misstated.

Cause

A UEF agreement was missed during the roll forward from FY08 to FY09 and was not identified by WCA personnel when adjusted for the FY09 ending UEF agreements receivable.

Recommendation

It is recommended that the WCA implement a procedure to have the receivable listing verified and approved when transitioning from one period to the next to ensure all applicable receivables are carried forward.

Management Response

This finding was identified by staff just prior to the auditors starting the 2009 audit, and after we had the receivables post to the books. We will continue to make every effort to ensure the receivables are reviewed, reconciled and posted timely and accurately. We are in the process of hiring staff to assist in fulfilling this function.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

The contents of this report were discussed in an exit conference held on December 10, 2009, attended by the following individuals:

Workers' Compensation Administration:

Glenn R. Smith	Director
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Abelino Montoya, Jr.	Executive Deputy Director
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Ida Alvarado	Chief Financial Officer
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Staci Tullar	Procurement Officer
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Hinkle & Landers, P.C.

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