



ricci & company llc

Certified Public Accountants

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

FINANCIAL STATEMENTS

JUNE 30, 2011

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

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

Official Roster

Ned S. Fuller	Director
Robert Doucette	Executive Deputy Director
Mayling Armijo	Executive Deputy Director
Daniel Griego	Chief Financial Officer
Darin Childers	General Counsel

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue fund of the Workers' Compensation Administration (the Administration) as of and for the year ended June 30, 2011, which collectively comprise the Administration's basic financial statements as listed in the table of contents. We also have audited the financial statements of the Administration's fiduciary fund presented as supplementary information in the accompanying individual fund financial statements as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the 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 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, 2011, 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.

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

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 Administration, as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparisons for the general fund and major special revenue fund 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 the fiduciary fund of the Administration as of June 30, 2011, 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 November 28, 2011, 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 Management's Discussion and Analysis on pages 4 through 9 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, and the combining and individual fund financial statements. The additional schedule listed as "other supplemental information" in the table of contents is presented for purposes of additional analysis and is 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.

Ricci & Company LLC

Albuquerque, New Mexico
November 28, 2011

NEW MEXICO WORKERS' COMPENSATION ADMINISTRATION
Management's Discussion and Analysis
Year Ended June 30, 2011
(Required Supplementary Information)

The Workers' Compensation Administration (Administration) (WCA) Management's Discussion and Analysis is provided as an overview of the financial activities of the Administration for the fiscal year ended June 30, 2011. The financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related GASB statements. Ricci & Company LLC prepared the financial statements with the assistance of the Administration. The requirements of GASB Statement No. 34 were developed by GASB to make annual reports more comprehensive and easier to understand and use.

The Basic Financial Statements

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

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

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

- Combining financial statements, and
- Individual fund budget comparison statements.

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

REPORTING ON THE DEPARTMENT AS A WHOLE

Government-Wide Financial Statements

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

NEW MEXICO WORKERS' COMPENSATION ADMINISTRATION
Management's Discussion and Analysis
Year Ended June 30, 2011
(Required Supplementary Information)

The *Statement of Net Assets* inclusively presents current and long-term assets and liabilities, with the difference between the assets and liabilities reported as net assets. The *Statement of Activities* presents all changes in net assets as soon as the underlying event giving rise to the change occurs, regardless of the timing related to cash flows. Therefore, revenues and expenses are included in this statement for some items that will only result in cash flows in future fiscal periods, like uncollected receivables (even if the "available" criteria is not met) and earned but unused vacation leave.

Reporting on the Administration's Most Significant Funds

The Fund Financial Statements

The fund financial statements are used to report additional and detailed information. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are used to ensure and demonstrate compliance with finance-related legal requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented by governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Administration's near-term financing decisions. Both of the governmental funds *Balance Sheet* and the governmental funds *Statements of Revenues, Expenditures and Changes in Fund Balance* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Administration maintains its fund structure in the Statewide Human Resources, Accounting and Management Reporting (SHARE) system. The Administration operates with two governmental-type funds, the 1) General Fund, and 2) the Special Revenue fund (Uninsured Employers Fund). The governmental fund reporting focus is primarily on the sources, uses and balances of current financial resources and has a budgetary orientation.

NEW MEXICO WORKERS' COMPENSATION ADMINISTRATION
Management's Discussion and Analysis
Year Ended June 30, 2011
(Required Supplementary Information)

The Budget Comparison Statements

The budget comparison statements required by GASB Statement 34 present the original and final appropriated budget for the reporting period as well as actual inflows and outflows stated on the budgetary basis. A separate column reports the variance between the final budget and actual amounts. In compliance with 2.2.2 New Mexico Administrative Code (NMAC) Section 2.2.2.10 P (1) through (3) the *Statement of Revenues and Expenditures – Budget and Actual*:

- Include prior-year cash required to balance the budget;
- Has been included as part of the basic financial statements; and
- Has been included in the auditor's opinion.

The Administration's budgeted funds consist of three individual Statewide Human Resources Accounting and Management Reporting System (SHARE) funds. Therefore, three individual fund budget comparison statements have been included in order to demonstrate budget compliance at the SHARE fund level, and to comply with the audit scope requirements of 2.2.2 (NMAC) Section 2.2.2.10 A(2)(e).

THE ADMINISTRATION:

Financial Analysis of the Administration

The Administration's combined net assets increased from a year ago, by \$613,962 or (12%), from \$4,886,501 to \$5,500,463.

Our analysis below focuses on the net assets and changes in net assets of the Administration's governmental activities. Comparative information from the previous fiscal year is included for the reader's information.

Net Assets
Governmental Activities

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Change</u>
Investment in the State Treasurer			
Fund Investment Pool	\$ 5,769,818	4,931,241	838,577
Petty cash	100	100	-0-
Prepaid expenses	64,897	52,622	12,275
Receivables of penalties and assessments, net	286,712	603,318	(316,606)
Receivable from other governments	698	184	514
Total current assets	<u>6,122,225</u>	<u>5,587,465</u>	<u>534,760</u>
Capital assets, net of depreciation	214,409	168,680	45,729
Total assets	<u><u>\$ 6,336,634</u></u>	<u><u>5,756,145</u></u>	<u><u>580,489</u></u>

NEW MEXICO WORKERS' COMPENSATION ADMINISTRATION
Management's Discussion and Analysis
Year Ended June 30, 2011
(Required Supplementary Information)

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Change</u>
Accounts payable	\$ 160,799	154,828	5,971
Accrued payroll and related liabilities	379,177	378,458	719
Compensated absences payable	224,445	254,248	(29,803)
Total current liabilities	<u>764,421</u>	<u>787,534</u>	<u>(23,113)</u>
Long-Term Liabilities			
Compensated absences payable	71,750	82,110	(10,360)
Total liabilities	<u>836,171</u>	<u>869,644</u>	<u>(33,473)</u>
Net assets, invested in capital assets	\$ 214,409	168,680	45,729
Restricted			
Special Revenue Funds	1,828,546	1,508,652	319,894
Unrestricted			
General Fund	3,457,508	3,209,169	248,339
Total net assets	<u>5,500,463</u>	<u>4,886,501</u>	<u>613,962</u>
Total liabilities and net assets	<u>\$ 6,336,634</u>	<u>5,756,145</u>	<u>580,489</u>

Total assets increased by \$580,489 or about 10% from a year ago, which is primarily related to the increase in Investment in the State Treasurer Fund Investment Pool. Total liabilities decreased by \$33,473 or about 4% from a year ago, which is primarily related to the decrease in liability for compensated absences.

The Administration's net assets are reported in the following three categories of net assets; (1) invested in capital assets, (2) restricted, and (3) unrestricted. The invested in capital assets balance is positive and the restricted and unrestricted balances are also positive.

The Administration's capital assets balance at year end was \$214,409, net of accumulated depreciation of \$213,270. The Administration uses the capital assets to provide its services; consequently, these assets are not available for future spending.

Statement of Activities – Changes in Net Assets

The statement below shows an increase in the aggregate, the Administration's net assets by \$613,962 during the year.

NEW MEXICO WORKERS' COMPENSATION ADMINISTRATION
Management's Discussion and Analysis
Year Ended June 30, 2011
(Required Supplementary Information)

Changes in Net Assets
Governmental Activities

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Change</u>
Program Expenses:			
General government	\$ 9,496,304	10,243,325	(747,021)
Depreciation	67,823	12,575	55,248
	<hr/>	<hr/>	<hr/>
Total program expenses	9,564,127	10,255,900	(691,773)
General Revenues:			
Workers' compensation assessments	12,397,493	12,074,770	322,723
Penalties	372,096	100,215	271,881
	<hr/>	<hr/>	<hr/>
Total general revenues	12,769,589	12,174,985	594,604
Transfers			
Inter-agency transfers in/(out)	(2,591,500)	(5,191,500)	2,600,000
	<hr/>	<hr/>	<hr/>
Net change in net assets	613,962	(3,272,415)	3,886,377
Beginning net assets	4,886,501	8,158,916	3,272,415
	<hr/>	<hr/>	<hr/>
Ending net assets	\$ 5,500,463	4,886,501	613,962

The Administration's governmental activities program revenue increased by \$594,604, or about 5%. This was the result of workers' compensations assessment fee increase in collections from FY 2010 to FY 2011.

The Administration's governmental activities program expenses decreased by \$691,773, or about 7% from FY 2010 - \$10,255,900 to FY 2011 - \$9,564,127.

The Administration's Funds

The Workers' Compensation Administration's source of funding is the Workers' Compensation Fund. Employers pay the workers' compensation fee of \$4.30 per quarter per employee, including a \$2.30 employer contribution and a \$2 employee payroll deduction, into the Fund (including 30 cents earmarked for the Uninsured Employers' Fund).

NEW MEXICO WORKERS' COMPENSATION ADMINISTRATION
Management's Discussion and Analysis
Year Ended June 30, 2011
(Required Supplementary Information)

The Uninsured Employers' Fund was created as a major new program of the WCA in 2003, to provide workers' compensation benefits for workers whose employers by law should, but do not, have workers' compensation coverage. Funding for this program comes from the earmarking of 30 cents per employee per quarter from the personnel assessment fee, paid by the employer. The law intends this source of funding to be supplemented by the collection of costs plus penalties from the uninsured employers whose employees receive benefits from the fund.

Collection of all revenue from the Workers' Compensation fee is under the Tax Administration Act. The WCA relies on the Taxation and Revenue Department (TRD) to collect the fee. The WCA has established an internal compliance program to facilitate the fee collection by TRD.

Capital Assets – Debt Administration

The Administration's capital assets consist of office equipment, furniture and fixtures, and information technology equipment. New information technology equipment of about \$114k was acquired during the current year and depreciation expense for the year ended June 30, 2011 was approximately \$68k.

The Administration did not acquire any debt during the current fiscal year, as such there is no related debt liability within the accompanying financial statements as of June 30, 2011. The only long-term liability is the amount of compensated absences expected to be paid after one year.

Economic Factors and Next Year's Budgets and Rates

The Administration expects to maintain a steady revenue figure stream in fiscal year 2012. Expenditures are expected to be steady or decreased due to statewide budget constraints and hiring freezes.

Contacting the Agency's Financial Management

The financial report is designed to provide a general overview of the State of New Mexico Workers Compensation Administration's finances for all those interested in the Administration's fiscal health. Questions about this report or requests for additional information can be directed to:

State of New Mexico
Workers Compensation Administration
2410 Centre Ave SE
P O Box 27198
Albuquerque, NM 87125-7198
505-841-6000

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
STATEMENT OF NET ASSETS
Year Ended June 30, 2011**

	Governmental Activities
ASSETS	
Current Assets	
Investment in State Treasurer General Fund Investment Pool	\$ 5,769,818
Petty cash	100
Prepaid expenses	64,897
Receivables of penalties and assessments, net	286,712
Receivable from other governments	698
Total current assets	<u>6,122,225</u>
Noncurrent Assets	
Capital assets, net	<u>214,409</u>
Total assets	<u><u>\$ 6,336,634</u></u>
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 160,799
Accrued payroll and related liabilities	379,177
Compensated absences payable	224,445
Total current liabilities	<u>764,421</u>
Long-term Liabilities	
Compensated absences payable	<u>71,750</u>
Total liabilities	<u>836,171</u>
NET ASSETS	
Investment in capital assets	214,409
Restricted	
Uninsured employer's future claims	1,828,546
Unrestricted	
General fund	3,457,508
Total net assets	<u>5,500,463</u>
Total liabilities and net assets	<u><u>\$ 6,336,634</u></u>

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 STATEMENT OF ACTIVITIES
 Year Ended June 30, 2011**

	Governmental Activities
Program Expenses	
General government	\$ 9,496,304
Depreciation	<u>67,823</u>
Total program expenses	<u>9,564,127</u>
General Revenues	
Workers' compensation assessments	12,348,006
Settlement agreements	49,487
Penalties	<u>372,096</u>
Total general revenues	<u>12,769,589</u>
Transfers	
Inter-agency transfers in/(out)	<u>(2,591,500)</u>
Changes in net assets	613,962
Net assets, beginning	<u>4,886,501</u>
Net assets, ending	<u><u>\$ 5,500,463</u></u>

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

	General Fund	Uninsured Employer's Fund	Total
ASSETS			
Investment in State Treasurer General Fund			
Investment Pool	\$ 4,108,622	1,661,196	5,769,818
Petty cash	100	-	100
Prepaid expenses	64,897	-	64,897
Receivables of penalties and assessments, net	109,115	177,597	286,712
Due from other agencies	550	148	698
	<hr/>		
Total assets	\$ 4,283,284	1,838,941	6,122,225
	<hr/> <hr/>		
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 150,404	10,395	160,799
Accrued payroll and related liabilities	379,177	-	379,177
	<hr/>		
Total liabilities	529,581	10,395	539,976
	<hr/> <hr/>		
Fund Balance			
Unspendable			
Prepaid expenses	64,897	-	64,897
Restricted			
Uninsured employer's future claims	-	1,828,546	1,828,546
Workers' Compensation Assessment	3,688,806	-	3,688,806
	<hr/>		
Total fund balance	3,753,703	1,828,546	5,582,249
	<hr/> <hr/>		
Total liabilities and fund balance	\$ 4,283,284	1,838,941	6,122,225
	<hr/> <hr/>		

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 RECONCILIATION OF BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
 June 30, 2011**

Total fund balance for the governmental fund (Balance Sheet) \$ 5,582,249

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources, and therefore are not reported in the funds.

Capital assets	\$ 427,679	
Accumulated depreciation	<u>(213,270)</u>	214,409

Long-term liabilities, including current compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds.

(296,195)

Net assets of governmental activities (Statement of Net Assets) \$ 5,500,463

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2011**

	General Fund	Uninsured Employers Fund	Total
Revenues			
Workers' compensation assessments	\$ 11,493,808	854,198	12,348,006
Settlement agreements	-	49,487	49,487
Penalties	359,336	12,760	372,096
	<hr/>		
Total revenues	11,853,144	916,445	12,769,589
	<hr/>		
Expenditures			
Current:			
Personal services	7,508,946	-	7,508,946
Contract services	290,676	22,093	312,769
Other costs	1,222,129	574,458	1,796,587
Capital outlay	31,717	-	31,717
	<hr/>		
Total expenditures	9,053,468	596,551	9,650,019
	<hr/>		
Excess of revenues over expenditures	2,799,676	319,894	3,119,570
	<hr/>		
Other Financing Sources (Uses)			
Transfers to State General Fund	(2,591,500)	-	(2,591,500)
	<hr/>		
Total other financing uses	(2,591,500)	-	(2,591,500)
	<hr/>		
Net change in fund balance	208,176	319,894	528,070
	<hr/>		
Fund balance, beginning of year	3,545,527	1,508,652	5,054,179
	<hr/>		
Fund balance, end of year	\$ 3,753,703	1,828,546	5,582,249
	<hr/> <hr/>		

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
 REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
 Year Ended June 30, 2011**

Net change in fund balance - Governmental Funds
(Statement of Revenues, Expenditures and Changes in Fund Balance) \$ 528,070

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

Capital outlays are reported as expenditures in governmental funds.
 However, in the Statement of Activities, the cost of capital assets
 is allocated over their estimated useful lives as depreciation expense.
 In the current period, these amounts are:

Capital outlay	\$ 113,552	
Depreciation expense	<u>(67,823)</u>	
Excess depreciation expense over capital outlay		45,729

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

Change in compensated absences		<u>40,163</u>
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Change in net assets of governmental activities (Statement of Activities) \$ 613,962

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL
 GENERAL FUND
 Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Workers' compensation assessment	\$ 10,438,400	11,573,300	11,493,808	(79,492)
Penalties	-	-	359,336	359,336
Total revenues	10,438,400	11,573,300	11,853,144	279,844
Expenditures				
Personnel services	8,038,100	9,107,700	7,508,946	1,598,754
Contractual services	348,700	360,500	290,676	69,824
Other	1,360,100	1,413,600	1,253,846	159,754
Total expenditures	9,746,900	10,881,800	9,053,468	1,828,332
Excess of revenues over expenditures	691,500	691,500	2,799,676	2,108,176
Other Financing Sources (Uses)				
Inter-agency transfers	(691,500)	(2,591,500)	(2,591,500)	-
Total other financing sources (uses)	(691,500)	(2,591,500)	(2,591,500)	-
Net change in fund balance	-	(1,900,000)	208,176	2,108,176
Fund balance, beginning of year	5,296,539	2,488,039	3,545,527	1,057,488
Fund balance, end of year	\$ 5,296,539	588,039	3,753,703	3,165,664

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL
 UNINSURED EMPLOYER'S FUND
 Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Workers' compensation assessment	\$ 1,169,100	1,169,100	854,198	(314,902)
Settlement agreements	-	-	49,487	49,487
Miscellaneous revenues	-	-	12,760	12,760
Total revenues	1,169,100	1,169,100	916,445	(252,655)
Expenditures				
Contractual services	100,000	100,000	22,093	77,907
Other	1,069,100	1,069,100	574,458	494,642
Total expenditures	1,169,100	1,169,100	596,551	572,549
Excess of revenues over expenditures	-	-	319,894	319,894
Other Financing Sources (Uses)				
Designated cash	-	-	-	-
Inter-agency transfers	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	-	-	319,894	319,894
Fund balance, beginning of year	2,434,859	1,434,859	1,508,652	73,793
Fund balance, end of year	\$ 2,434,859	1,434,859	1,828,546	393,687

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND - SHARE FUND 59600
June 30, 2011**

Assets	
Accounts receivable	<u>\$ 25,300</u>
Total assets	<u><u>\$ 25,300</u></u>
Liabilities	
Due to State General Fund	<u>\$ 25,300</u>
Total liabilities	<u><u>\$ 25,300</u></u>

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1. ORGANIZATION

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).

NOTE 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.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

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.

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

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

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; 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. 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 inter-fund 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.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Nonmajor 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:

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statements - Fund Financial Statements (Continued)

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 noncurrent 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 Employer's Fund. The Uninsured Employer's 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.

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.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 noncurrent 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.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets and Budgetary Accounting (Continued)

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 30.

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.

**STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fund financial statements are similar to the financial statements presented in the previous year.

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 Payable

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
15/Beyond	13.33	1.67	30

**STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Compensated Absences Payable (Continued)

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
15/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 current and noncurrent 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, 2011, 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.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Net Assets

The government-wide and business type 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 NMSA 1978, the Workers' Compensation Assessments are set aside in the Uninsured Employer's 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. The balance of restricted net assets as of June 30, 2011 is \$1,828,546.

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.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Fund Balance

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement is intended to enhance the usefulness of fund balance information by providing clearer fund balance classifications and clarifying the existing fund balance definitions.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below:

1. *Nonspendable* - includes amounts that cannot be spent because (1) they are either not in spendable form or (2) they are legally or contractually required to be maintained intact.
2. *Restricted* - fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
3. *Committed* - fund balance classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the government's highest level of decision-making authority removes or changes the specified use by taking the same action it employed to previously commit those amounts.
4. *Assigned* - fund balance classification intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.
5. *Unassigned* - fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The Administration has reviewed each of the classifications and has determined that the fund balance is restricted for Uninsured employer's future claims in compliance with Senate Bill 771.

The Board would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Inter-fund Activity

Inter-fund 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 inter-fund 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 cost 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.

**STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011**

**NOTE 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	\$ 4,108,622	4,108,622
Petty Cash - General Fund	63200-98200	On Site	<u>100</u>	<u>100</u>
Subtotal General Fund			4,108,722	4,108,722
Uninsured Employers Fund	63200-98300	STO	<u>1,661,196</u>	<u>1,661,196</u>
Subtotal government-wide cash and investments			5,769,818	5,769,818
Agency Fund	63200-59600	STO	<u>-</u>	<u>-</u>
Total cash and investments in SGFIP			<u>\$ 5,769,818</u>	<u>5,769,818</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 between 50% and 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:

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

**NOTE 3. INVESTMENT IN STATE TREASURER'S GENERAL FUND
INVESTMENT POOL (CONTINUED)**

- 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 U.S. of other securities backed by the U.S. 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;

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

**NOTE 3. INVESTMENT IN STATE TREASURER'S GENERAL FUND
INVESTMENT POOL (CONTINUED)**

- 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 US. 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 or 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, PO, Box 608, Santa Fe, NM 87504-0608.

Credit Risk and Interest Rate Risk

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The State Treasurer General Fund Investment Pool is not rated for credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The agency does not have an investment policy that limits investment rate risk.

For additional GASB 40 disclosure information regarding cash held by the State Treasurer, the reader should see the separate audit reports for the State Treasurer's Office for the fiscal year ended June 30, 2011.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 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
34100/00100	63200/98200	\$ 480	Refund for assessments
52100/02001	63200/98200	70	Employee transfers
39400/80100	63200/98300	<u>148</u>	SGFIP interest receivable
Total due from other agencies		<u>\$ 698</u>	

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	\$ 109,115	-	109,115
General Fund	Penalties receivable	-	-	-
Subtotal General Fund (SHARE Fund #98200)		<u>109,115</u>	<u>-</u>	<u>109,115</u>
UEF Fund	WCA assessments receivable	9,628	-	9,628
UEF Fund	UEF judgments receivable	<u>542,694</u>	<u>(374,725)</u>	<u>167,969</u>
Subtotal UEF Fund (SHARE Fund #98300)		<u>552,322</u>	<u>(374,725)</u>	<u>177,597</u>
Subtotal governmental activities		<u>661,437</u>	<u>(374,725)</u>	<u>286,712</u>
Agency Fund	Penalties receivable	<u>25,300</u>	<u>-</u>	<u>25,300</u>
Due from others		<u>\$ 686,737</u>	<u>(374,725)</u>	<u>312,012</u>

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

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 5. CAPITAL ASSETS

Summaries of changes in capital assets and related depreciation for the year ended June 30, 2011, is as follows:

	Balance 6/30/10	Additions	Deletions	Adjustments	Balance 6/30/11
Capital Assets					
Office equipment	\$ 95,979	-	(21,995)		73,984
Furniture and fixtures	31,686	-	-	-	31,686
Information technology equipment	209,077	113,552	(620)		322,009
Total capital assets	<u>336,742</u>	<u>113,552</u>	<u>(22,615)</u>	<u>-</u>	<u>427,679</u>
Accumulated depreciation					
Office equipment	(57,826)	(13,519)	21,995	-	(49,350)
Furniture and fixtures	(11,749)	(3,169)	-	-	(14,918)
Information technology equipment	(98,487)	(51,135)	620	-	(149,002)
Total accumulated depreciation	<u>(168,062)</u>	<u>(67,823)</u>	<u>22,615</u>	<u>-</u>	<u>(213,270)</u>
Net capital assets	<u>\$ 168,680</u>	<u>45,729</u>	<u>-</u>	<u>-</u>	<u>214,409</u>

The Administration does not have any debt related to capital assets at June 30, 2011. Current year depreciation expense is \$67,823, 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.

NOTE 6. CHANGES IN COMPENSATED ABSENCES

A summary of changes in compensated absences payable for the year ended June 30, 2011, is as follows:

	Balance 6/30/10	Increase	Decrease	Balance 6/30/11	Current Due Within One Year
Governmental Activities					
Annual leave	\$ 328,440	358,398	(399,836)	287,002	215,252
Sick leave	7,089	247,234	(250,792)	3,531	3,531
Compensatory	829	13,504	(8,671)	5,662	5,662
Compensated absences payable	<u>\$ 336,358</u>	<u>619,136</u>	<u>(659,299)</u>	<u>296,195</u>	<u>224,445</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 \$224,445 and a long-term liability of \$71,750. The General Fund (SHARE Fund #98200) has paid substantially all of the compensated absences balance in prior years.

**STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011**

NOTE 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.

Buildings and Structures

The Administration leases office space at five 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 and 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, 2011, were \$344,626.

Future minimum rental payments under these operating leases are as follows:

Year ended June 30,	
2012	\$ 293,339
2013	121,608
2014	74,277
2015	44,921
2016	45,337
Thereafter	<u>90,675</u>
Total	<u>\$ 670,157</u>

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 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 II, 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 Administration is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Administration 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, 2011, 2010 and 2009 were \$778,213, \$845,978, and \$1,020,891, respectively, equal to the amount of the required contributions for each year.

NOTE 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 post-employment health care 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 health care plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

**STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011**

NOTE 9. POST-EMPLOYMENT BENEFITS (CONTINUED)

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post-employment health care 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 health care 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. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.66% of each participating employee's annual salary; each participating employee was required to contribute .833% of their salary. In the fiscal years ending June 30, 2012 through June 30, 2013, the contribution rates for employees and employers will rise as follows:

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

Also, employers joining the program after 1/1/98 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The Administration's contributions to the RHCA for the years ended June 30, 2011, 2010 and 2009 were \$85,334, \$72,118, and \$76,928, respectively, which equal the required contributions for each year.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 10. INTER-AGENCY TRANSFERS AND OTHER FINANCING SOURCES (USES)

The following transfers were made during the fiscal year:

Transferring Agency/Fund	Receiving Agency/Fund	Amount	Purpose of Transfer/Laws
Inter-agency Transfers In			
33300/83100	63200/98200	\$ 12,294,616	Workers' comp assessments collected by other agency
33300/83100	63200/98200	<u>109,115</u>	Workers' comp assessments receivable as of 6/30/10
		12,403,731	Subtotal amounts received or receivable
		<u>(909,923)</u>	Less amounts transferred to WCA Fund 98300
		<u>11,493,808</u>	Amount reported on the fund financials as revenues in Fund 982
33300/83100	63200/98200	9,628	Workers' comp assessments receivable as of 6/30/10
39400/41000	63200/98300	<u>148</u>	SGFIP interest - receivable as of 6/30/10
	Subtotal Fund 98300	<u>9,776</u>	
	Total transfers in	<u>\$ 11,503,584</u>	
33300/83100	63200/98200	335,077	Workers' comp assessments collected by other agency
39400/41000	63200/98300	<u>184</u>	SGFIP interest
	Total payments on receivables from prior years	<u>\$ 335,261</u>	
Inter-agency Transfers Out			
63200/98200	63100/32900	\$ 691,500	General Appropriation Act of 2008-Laws 2009, Ch 3, Sec4
63200/98200	34101/85300	<u>1,900,000</u>	Laws 2011, Chapter 179, Section 11 (House Bill 2)
	Total other financing uses	<u>\$ 2,591,500</u>	
Agency Fund Activity			
63200/59600	34101/85300	<u>\$ 15,625</u>	Transfer workers' comp penalties collected by agency
	Total inter-agency transfers from agency fiduciary fund	<u>\$ 15,625</u>	

**STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011**

NOTE 11. INTER-FUND TRANSFERS

Inter-fund transfers are as follows:

Transferring Fund	Receiving Fund	Amount	Purpose of Transfer
98200	98300	\$ 909,923	Transfer Fund 983's portion of WCA assessments
		<u>(55,725)</u>	Audit AJE to adjust allowance for uncollectible accounts
Total inter-fund transfers		<u>\$ 854,198</u>	This amount is reported on the fund financials as revenues in Fund 983

NOTE 12. RISK MANAGEMENT

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 provided in the following areas:

1. Liability and civil rights protection for claims made by others against the State of New Mexico
2. Coverages to protect the State of New Mexico's property and assets
3. Fringe benefit coverages 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
 SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUND
 SHARE FUND 59600
 Year Ended June 30, 2011

	Balance 6/30/2010	Additions	Deletions	Balance 6/30/2011
Assets				
Cash	\$ 8,325	3,650	(11,975)	-
Accounts receivable	21,575	7,375	(3,650)	25,300
	<hr/>			
Total assets	\$ 29,900	11,025	(15,625)	25,300
	<hr/>			
Liabilities				
Deposits held in custody for others	\$ 29,900	11,025	(15,625)	25,300
	<hr/>			
Total liabilities	\$ 29,900	11,025	(15,625)	25,300
	<hr/>			

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 SCHEDULE OF JOINT POWERS AGREEMENTS AND MEMORANDUMS OF UNDERSTANDING
 Year Ended June 30, 2011

Participants	Responsible Party for Operations	Description	Beginning & Ending Dates	Total Estimated Amount of Project	Agency Contributions in FY 11	Revenues & Expenditures Reported On By:	Audit Responsibility
Workforce Solutions Department	WSD	Provide employment data	Open	\$ 3,010	\$ 3,010	WSD & WCA	Both
NM Taxation and Revenue Department	TRD	Collect and remit WCA assessment fees	Open	-	-	TRD	TRD

Ricci & Company LLC

CERTIFIED PUBLIC ACCOUNTANTS
6200 UPTOWN BLVD. NE - SUITE 400
ALBUQUERQUE, NM 87110

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*

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

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue fund, of the Workers' Compensation Administration (the Administration) as of and for the year ended June 30, 2011, which collectively comprise the Administration's basic financial statements, and have issued our report thereon dated November 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

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.

Ricci & Company LLC

Albuquerque, New Mexico
November 28, 2011

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2010**

05-02 Inventory of Capital Assets Greater than \$5,000 Resolved

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011**

NONE

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
EXIT CONFERENCE
Year Ended June 30, 2011**

Exit Conference

An exit conference was held on October 6, 2011 to discuss the annual financial report. Attending were the following:

Representing the Workers' Compensation Administration:

Ned Fuller	Director
Robert Doucette	Executive Deputy Director
Daniel Griego	Chief Financial Officer
Stacy Tullar	Procurement Officer

Representing the Independent Auditor:

Herman Chavez, CPA
Shawn Mortensen, CPA

Note: Management is responsible for the context of the report, even though the financial statements were prepared substantially by the independent auditor.