

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

FINANCIAL STATEMENTS

JUNE 30, 2014

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

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

Official Roster

Darin Childers	Director
Robert Doucette	Executive Deputy Director
Thomas Dow	Executive Deputy Director
Daniel Griego	Chief Financial Officer
Rachel Bayless	General Counsel

Independent Auditor's Report

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

Report on Financial Statements

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, 2014, and the related notes to the financial statements which collectively comprise the Administration's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2014, 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.

Other Matters

Emphasis of Matter

As discussed in Note 2, the financial statements of the State of New Mexico Workers' Compensation 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, 2014, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements, the individual fund financial statements, and the budgetary comparisons. The other schedules required by Section 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the other schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Joint Powers Agreements and Memorandums of Understanding has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2014 on our consideration of the Administration's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Administration's internal control over financial reporting and compliance.

Ricci & Company, LLC

Albuquerque, New Mexico
December 10, 2014

NEW MEXICO WORKERS' COMPENSATION ADMINISTRATION
Management's Discussion and Analysis
Year Ended June 30, 2014
(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, 2014. 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:

- 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, 2014
(Required Supplementary Information)

The *Statement of Net Position* inclusively presents current and long-term assets and liabilities, with the difference between the assets and liabilities reported as net position. 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, 2014
(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 position increased from a year ago, by \$2,167,161 or 25%, from \$8,526,122 to \$10,693,283.

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

Net Position
Governmental Activities

	<u>FY 2014</u>	<u>FY 2013</u>	<u>Change</u>
Investment in the State Treasurer			
Fund Investment Pool	\$10,643,740	8,462,839	2,180,901
Petty cash	100	100	-
Prepaid expenses	-	53,104	(53,104)
Receivables of penalties and assessments, net	1,080,932	328,433	752,499
Receivable from other governments	215	223	(8)
Total current assets	<u>11,724,987</u>	<u>8,844,699</u>	<u>2,880,288</u>
Capital assets, net of depreciation	543,512	325,877	216,635
Total assets	<u>\$12,268,499</u>	<u>9,170,576</u>	<u>3,097,923</u>

NEW MEXICO WORKERS' COMPENSATION ADMINISTRATION
Management's Discussion and Analysis
Year Ended June 30, 2014
(Required Supplementary Information)

	<u>FY 2014</u>	<u>FY 2013</u>	<u>Change</u>
Accounts payable	\$ 227,457	219,774	7,683
Accrued payroll and related liabilities	175,044	138,155	36,889
Compensated absences payable	204,537	214,894	(10,357)
Due to other state agencies	900,000	-	900,000
Total current liabilities	<u>1,507,038</u>	<u>572,823</u>	<u>934,215</u>
Long-Term Liabilities			
Compensated absences payable	68,178	71,631	(3,453)
Total liabilities	<u>1,575,216</u>	<u>644,454</u>	<u>930,762</u>
Net position, invested in capital assets	\$ 543,512	325,877	217,635
Restricted			
Special Revenue Funds	3,549,514	2,805,120	744,394
Unrestricted			
General Fund	6,600,257	5,395,125	1,205,132
Total net position	<u>10,693,283</u>	<u>8,526,122</u>	<u>2,167,161</u>
Total liabilities and net position	<u>\$12,268,499</u>	<u>9,170,576</u>	<u>3,097,923</u>

Total assets increased by \$3,097,923 or about 34% from a year ago, which is primarily related to the increase in receivables and the investment in the State Treasurer Fund Investment Pool. Total liabilities increased by \$930,762 or about 144% from a year ago, which is primarily related to the increase in due to other state agencies.

The Administration's net position is reported in the following three categories of net position; (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 \$543,512, net of accumulated depreciation of \$410,623. 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 Position

The statement below shows an increase in the aggregate, of the Administration's net position by \$2,167,161 during the year.

NEW MEXICO WORKERS' COMPENSATION ADMINISTRATION
Management's Discussion and Analysis
Year Ended June 30, 2014
(Required Supplementary Information)

Changes in Net Position
Governmental Activities

	<u>FY 2014</u>	<u>FY 2013</u>	<u>Change</u>
Program Expenses:			
General government	\$ 9,999,978	9,730,761	269,217
Depreciation	65,468	80,464	(14,996)
	<hr/>	<hr/>	<hr/>
Total program expenses	10,065,446	9,811,225	254,221
General Revenues:			
Workers' compensation assessments	13,129,994	12,442,415	687,579
Penalties	716	3,176	(2,460)
	<hr/>	<hr/>	<hr/>
Total general revenues	13,130,710	12,445,591	685,119
Transfers			
Inter-agency transfers in/(out)	(898,103)	(995,086)	96,983
	<hr/>	<hr/>	<hr/>
Net change in net position	2,167,161	1,639,280	527,881
Beginning net position	8,526,122	6,886,842	1,639,280
	<hr/>	<hr/>	<hr/>
Ending net position	<u>\$ 10,693,283</u>	<u>8,526,122</u>	<u>2,167,161</u>

The Administration's governmental activities program revenue increased by \$685,119, or about 6%. This was the result of workers' compensations assessment fees and penalties, increase in collections from FY 2013 to FY 2014.

The Administration's governmental activities program expenses increased by \$254,221, or about 3% from FY 2013 - \$9,811,225 to FY 2014 - \$10,065,446.

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, 2014
(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.

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 \$19k and leasehold improvements of approximately \$264k were acquired during the current year and depreciation expense for the year ended June 30, 2014 was \$65,468.

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, 2014. 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 2015. Expenditures are expected to be steady.

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 POSITION
Year Ended June 30, 2014**

	Governmental Activities
ASSETS	
Current Assets	
Investment in State Treasurer General Fund Investment Pool	\$ 10,643,740
Petty cash	100
Receivables of penalties and assessments, net	1,080,932
Receivable from other governments	215
Total current assets	<u>11,724,987</u>
Noncurrent Assets	
Capital assets, net	<u>543,512</u>
Total assets	<u>12,268,499</u>
LIABILITIES	
Current Liabilities	
Accounts payable	227,457
Accrued payroll and related liabilities	175,044
Compensated absences payable	204,537
Due to other state agencies	900,000
Total current liabilities	<u>1,507,038</u>
Long-term Liabilities	
Compensated absences payable	<u>68,178</u>
Total liabilities	<u>1,575,216</u>
NET POSITION	
Net Investment in capital assets	543,512
Restricted	
Uninsured employer's future claims	3,549,514
Workers' compensation assessment	6,600,257
Total net position	<u><u>\$ 10,693,283</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, 2014

	Governmental Activities
Program Expenses	
General government	\$ 9,999,978
Depreciation	<u>65,468</u>
Total program expenses	<u>10,065,446</u>
General Revenues	
Workers' compensation assessments	12,675,076
Settlement agreements	454,918
Penalties	<u>716</u>
Total general revenues	<u>13,130,710</u>
Transfers	
Inter-agency transfers in/(out)	<u>(898,103)</u>
Change in net position	2,167,161
Net position, beginning	<u>8,526,122</u>
Net position, ending	<u><u>\$ 10,693,283</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, 2014**

	General Fund	Uninsured Employer's Fund	Total
ASSETS			
Investment in State Treasurer General Fund			
Investment Pool	\$ 7,765,983	2,877,757	10,643,740
Petty cash	100	-	100
Receivables of penalties and assessments, net	380,692	700,240	1,080,932
Due from other agencies	-	215	215
	<hr/>		
Total assets	\$ 8,146,775	3,578,212	11,724,987
	<hr/>		
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 219,990	7,467	227,457
Accrued payroll and related liabilities	153,813	21,231	175,044
Due to other agencies	900,000	-	900,000
	<hr/>		
Total liabilities	1,273,803	28,698	1,302,501
	<hr/>		
Fund Balance			
Restricted			
Uninsured employer's future claims	\$ -	3,549,514	3,549,514
Workers' compensation assessment	6,872,972	-	6,872,972
	<hr/>		
Total fund balance	6,872,972	3,549,514	10,422,486
	<hr/>		
Total liabilities and fund balance	\$ 8,146,775	3,578,212	11,724,987
	<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 POSITION - GOVERNMENTAL FUNDS
 June 30, 2014**

Total fund balance for the governmental fund (Balance Sheet) \$ 10,422,486

Amounts reported for governmental activities in the Statement of Net Position 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	\$ 954,135	
Accumulated depreciation	<u>(410,623)</u>	543,512

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.

(272,715)

Net position of governmental activities (Statement of Net Position) \$ 10,693,283

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, 2014**

	General Fund	Uninsured Employers Fund	Total
Revenues			
Workers' compensation assessments	\$ 11,701,963	973,113	12,675,076
Settlement agreements	-	454,918	454,918
Penalties	716	-	716
	<hr/>		
Total revenues	11,702,679	1,428,031	13,130,710
	<hr/>		
Expenditures			
Current:			
Personal services	7,835,831	192,249	8,028,080
Contract services	290,513	8,025	298,538
Other costs	1,201,911	485,259	1,687,170
Capital outlay	283,103	-	283,103
	<hr/>		
Total expenditures	9,611,358	685,533	10,296,891
	<hr/>		
Excess of revenues over expenditures	2,091,321	742,498	2,833,819
	<hr/>		
Other Financing Sources (Uses)			
Transfers to State General Fund	(900,000)	1,897	(898,103)
	<hr/>		
Total other financing sources (uses)	(900,000)	1,897	(898,103)
	<hr/>		
Net change in fund balance	1,191,321	744,395	1,935,716
	<hr/>		
Fund balance, beginning of year	5,681,651	2,805,119	8,486,770
	<hr/>		
Fund balance, end of year	\$ 6,872,972	3,549,514	10,422,486
	<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, 2014**

Net change in fund balance - Governmental Funds
(Statement of Revenues, Expenditures and Changes in Fund Balance) \$ 1,935,716

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	\$ 283,103	
Depreciation expense	<u>(65,468)</u>	
Excess capital outlay over depreciation expense		217,635

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>13,810</u>
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Change in net position of governmental activities (Statement of Activities) \$ 2,167,161

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, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Workers' compensation assessment	\$ 10,540,600	10,540,600	11,701,963	1,161,363
Penalties	-	-	716	716
Total revenues	10,540,600	10,540,600	11,702,679	1,162,079
Expenditures				
Personnel services	7,940,200	7,940,200	7,835,831	104,369
Contractual services	300,300	300,300	290,513	9,787
Other	1,400,100	1,400,100	1,485,014	(84,914)
Total expenditures	9,640,600	9,640,600	9,611,358	29,242
Excess of revenues over expenditures	900,000	900,000	2,091,321	1,191,321
Other Financing Sources (Uses)				
Inter-agency transfers	(900,000)	(900,000)	(900,000)	-
Total other financing sources (uses)	(900,000)	(900,000)	(900,000)	-
Net change in fund balance	-	-	1,191,321	1,191,321
Fund balance, beginning of year	588,039	588,039	5,681,651	5,093,612
Fund balance, end of year	\$ 588,039	588,039	6,872,972	6,284,933

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, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Workers' compensation assessment	\$ 1,148,600	1,148,600	973,113	(175,487)
Settlement agreements	-	-	454,918	454,918
Miscellaneous revenues	-	-	-	-
Total revenues	1,148,600	1,148,600	1,428,031	279,431
Expenditures				
Personal Services	231,400	231,400	192,249	39,151
Contractual services	65,000	65,000	8,025	56,975
Other	852,200	852,200	485,259	366,941
Total expenditures	1,148,600	1,148,600	685,533	463,067
Excess of revenues over expenditures	-	-	742,498	742,498
Other Financing Sources (Uses)				
Designated cash	-	-	-	-
Inter-agency transfers	-	-	1,897	1,897
Total other financing sources (uses)	-	-	1,897	1,897
Net change in fund balance	-	-	744,395	744,395
Fund balance, beginning of year	1,434,859	1,434,859	2,805,119	1,370,260
Fund balance, end of year	\$ 1,434,859	1,434,859	3,549,514	2,114,655

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, 2014

Assets	
Investment in the State Treasurer General Fund Investment Pool	\$ 1,400
Accounts receivable	<u>24,280</u>
Total assets	<u>\$ 25,680</u>
Liabilities	
Due to State General Fund	<u>\$ 25,680</u>
Total liabilities	<u>\$ 25,680</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, 2014**

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 Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

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, 2014**

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 Director is appointed by the Governor, the Director 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, 2014**

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 position and the statement of activities report information on all non-fiduciary activities of an agency. In the government-wide statement of net position, 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 position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position.

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 position 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, 2014**

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

The Administration's fiduciary fund is not presented in the fund financial statements since it is an agency fund type. By definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government. These funds are not incorporated into the government-wide statements either.

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

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

The new model sets forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combined) 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, 2014

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 position) 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 position. 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 Employer's 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, 2014

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. Gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange transactions are recognized when the exchange takes place.

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, 2014**

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, 2014**

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, 2014**

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, 2014**

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, 2014, 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, 2014**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Net Position

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

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

Restricted Net Position - 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 position 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 and the Workers' Compensation Administration Fund (General fund). This net position is considered restricted and does 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 position as of June 30, 2014 is \$10,693,283.

Unrestricted Net Position - represent unrestricted liquid assets. All net positions 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.

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.

STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes
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 fund balances are restricted for Uninsured employer's future claims in compliance with Senate Bill 771, and for general fund workers' compensation assessments in accordance with NMSA 52-5-19 T NMSA 1978.

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.

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.

**STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Items on the capital asset listing that were capitalized under previous lower thresholds remain on the inventory list and will continue to be depreciated until the Administration disposes of them in accordance with applicable statute.

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.

NOTE 3. CASH – INVESTMENTS AND COLLATERAL

Interest in the General Fund Investment Pool

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

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

Interest in the General Fund Investment Pool (Continued)

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a “business unit by fund” level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled “Current State Diagnostic of Cash Control,” also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting from the Remediation Project and has made changes to the State’s SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis; however, it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

The Cash Management Remediation close out report dated April 29, 2013 indicates the project was able to deliver to the State, the DF A, and the New Mexico Department of Information Technology (Procuring Agency) strategic initiatives by working to improve data security, client service, and business performance through information technology solutions. Project accomplishments included improved financial data processing functionality and system integration and reduced reliance on manual processes and system customizations.

**STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

Interest in the General Fund Investment Pool (Continued)

State law (Section 8-6-3 NMSA 1978) requires the Administration’s cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Department consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office *Investment Accounts with State Treasurer*.

At June 30, 2014, the Administration had the following invested in the SGFIP:

Fund	SHARE Agency - Fund	Location	Balance Per SHARE
General Fund	63200-98200	STO	\$ 7,765,983
Petty cash - General Fund	63200-98200	On site	<u>100</u>
Subtotal General Fund			7,766,083
Uninsured Employers Fund	63200-98300	STO	<u>2,877,757</u>
Subtotal government-wide cash and investments			10,643,840
Agency Fund	63200-59600	STO	<u>1,400</u>
Total cash and investments in SGFIP			<u>\$ 10,645,240</u>

Cash 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 Administration is not authorized to make investments of funds on deposit with the New Mexico State Treasurer.

The Administration reconciles actual activity to revenues and expenditures posted in the SHARE system, which mitigates the risk that the Administration’s cash balances would be misstated due to the General Fund Investment Pool not being reconciled as previously mentioned.

Interest Rate Risk

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

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

Credit Risk

The New Mexico State Treasurer pools are not rated. For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2014.

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
39400/80100	63200/98300	\$ 215	SGFIP interest receivable

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	\$ 380,692	-	380,692
General Fund	Penalties receivable	-	-	-
Subtotal General Fund (SHARE Fund #98200)		<u>380,692</u>	<u>-</u>	<u>380,692</u>
UEF Fund	WCA assessments receivable	30,108	-	30,108
UEF Fund	UEF judgments receivable	915,567	(245,435)	670,132
Subtotal UEF Fund (SHARE Fund #98300)		<u>945,675</u>	<u>(245,435)</u>	<u>700,240</u>
Subtotal governmental activities		<u>1,326,366</u>	<u>(245,435)</u>	<u>1,080,932</u>
Agency Fund	Penalties receivable	24,280	-	24,280
Due from others		<u>\$ 1,350,646</u>	<u>(245,435)</u>	<u>1,105,212</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, 2014**

NOTE 5. CAPITAL ASSETS

Summaries of changes in capital assets and related depreciation for the year ended June 30, 2014 is as follows:

	Balance 6/30/13	Additions	Deletions	Adjustments	Balance 6/30/14
Capital Assets					
Office equipment	\$ 73,984	-	-	-	73,984
Furniture and fixtures	31,686	-	-	-	31,686
Information technology equipment	414,477	19,371	-	-	433,848
Leasehold improvements	150,885	263,732	-	-	414,617
Total capital assets	<u>671,032</u>	<u>283,103</u>	-	-	<u>954,135</u>
Accumulated depreciation					
Office equipment	(61,324)	(3,165)	-	-	(64,489)
Furniture and fixtures	(21,255)	(3,169)	-	-	(24,424)
Information technology equipment	(255,032)	(38,403)	-	-	(293,435)
Leasehold improvements	(7,544)	(20,731)	-	-	(28,275)
Total accumulated depreciation	<u>(345,155)</u>	<u>(65,468)</u>	-	-	<u>(410,623)</u>
Net capital assets	<u>\$ 325,877</u>	<u>217,635</u>	-	-	<u>543,512</u>

The Administration does not have any debt related to capital assets at June 30, 2014. Current year depreciation expense is \$65,468 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, 2014, is as follows:

	Balance 6/30/13	Increase	Decrease	Balance 6/30/14	Current Due Within One Year
Governmental Activities					
Annual leave	\$ 277,869	293,934	(308,479)	263,324	197,494
Sick leave	4,133	97,287	(95,975)	5,445	4,084
Compensatory	4,523	24,447	(25,024)	3,946	2,959
Compensated absences payable	<u>\$ 286,525</u>	<u>415,668</u>	<u>(429,478)</u>	<u>272,715</u>	<u>204,537</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 \$204,537 and a long-term liability of \$68,178. 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, 2014**

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 (seven leases) throughout the State. The terms of the leases are from one to ten 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 12 vehicles on an annual basis from the New Mexico General Services Department.

The cumulative expenditures for operating leases for the year ended June 30, 2014, were \$315,528.

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

Year ended June 30,	
2015	\$ 244,531
2016	191,135
2017	184,556
2018	146,283
2019	87,139
Thereafter	<u>415,523</u>
Total	<u>\$ 1,269,167</u>

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

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 8.92% 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, 2014, 2013 and 2012 were \$873,836, \$791,768, and \$706,919, respectively, equal to the amount of the required contributions for each year.

NOTE 9. RETIREE HEALTH CARE ACT CONTRIBUTIONS

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, 2014**

NOTE 9. RETIREE HEALTH CARE ACT CONTRIBUTIONS (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 employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Administration's contributions to the RHCA for the years ended June 30, 2014, 2013 and 2012 were \$105,956, \$105,006, and \$96,698, respectively, which equal the required contributions for each year.

STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

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	\$ 12,047,160	Workers' comp assessments collected by other agency
33300/83100	63200/98200	<u>380,692</u>	Workers' comp assessments receivable as of 6/30/14
		12,427,852	Subtotal amounts received or receivable
		<u>(725,889)</u>	Less amounts transferred to WCA Fund 98300
		<u>11,701,963</u>	Amount reported on the fund financials as revenues in Fund 982
33300/83100	63200/98300	30,108	Workers' comp assessments receivable as of 6/30/14
39400/41000	63200/98300	<u>215</u>	SGFIP interest - receivable as of 6/30/14
	Subtotal Fund 98300	<u>30,323</u>	
	Total transfers in	<u>\$ 11,732,286</u>	
33300/83100	63200/98200	46,564	Workers' comp assessments collected by other agency
39400/41000	63200/98300	<u>3,676</u>	Workers' comp assessments collected by other agency
	Total payments on receivables from prior years	<u>\$ 50,240</u>	
Inter-agency Transfers Out			
63200/98200	63100/32900	<u>\$ 900,000</u>	Gen'l. Approp. Act of 2008-Laws 2009, Ch 3, Sec4
	Total other financing uses	<u>\$ 900,000</u>	
Agency Fund Activity			
63200/59600	34101/85300	<u>\$ 200</u>	Transfer workers' comp penalties collected by agency
	Total inter-agency transfers from agency fiduciary fund	<u>\$ 200</u>	

**STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014**

NOTE 11. INTER-FUND TRANSFERS

Inter-fund transfers are as follows:

Transferring Fund	Receiving Fund	Amount	Purpose of Transfer
98200	98300	\$ 725,889	Transfer Fund 983's portion of WCA assessments
		<u>247,224</u>	Audit AJE to adjust allowance for uncollectible accounts
Total inter-fund transfers		<u>\$ 973,113</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
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 13. SUBSEQUENT ACCOUNTING STANDARD PRONOUNCEMENTS

GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*, approved in June 2012, and is effective for fiscal years beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position.

STATE OF NEW MEXICO
 WORKERS' COMPENSATION ADMINISTRATION
 SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUND
 SHARE FUND 59600
 Year Ended June 30, 2014

	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Assets				
Cash	\$ 1,100	300	-	1,400
Accounts receivable	24,480	-	(200)	24,280
	<hr/>			
Total assets	\$ 25,580	300	(200)	25,680
	<hr/> <hr/>			
Liabilities				
Deposits held in custody for others	\$ 25,580	300	(200)	25,680
	<hr/>			
Total liabilities	\$ 25,580	300	(200)	25,680
	<hr/> <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, 2014

Participants	Responsible Party for Operations	Description	Beginning & Ending Dates	Total Estimated Amount of Project	Agency Contributions in FY 14	Revenues & Expenditures Reported On By:	Audit Responsibility
Workforce Solutions Department	WSD	Provide employment data	Open	\$ -	-	WSD & WCA	Both
NM Taxation and Revenue Department	TRD	Collect and remit WCA assessment fees	Open	631,290	631,290	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*

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, in accordance with the 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, the 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, 2014, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements, and have issued our report thereon dated December 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, of the financial statements, we considered the Administration's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Administration's internal control.

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 2014-001, 2014-002, and 2014-003.

Management's Responses to Findings

The responses from Management to the findings identified in our audit are described in the accompanying schedule of findings and responses. These responses were not subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ricci & Company, LLC

Albuquerque, New Mexico
December 10, 2014

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014**

NONE

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2014**

A. FINDINGS AND RESPONSES

2014-001 TRAVEL AND PER DIEM (FINDINGS THAT DO NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY)

CONDITION

We tested 25 travel and per diem expenditures for compliance with state statute. The reimbursement rate was \$.44 per mile, but the Administration paid one employee \$.39 per mile. The error resulted in an underpayment of the employee by \$22.

CRITERIA

In accordance with Section 10-8-1 to 10-8-8 NMSA 1978 (1995 Repl. Pamp.), 2.42.2 NMAC governs the payment of per diem rates and mileage and the reimbursement of expenses for all salaried and non-salaried public officers and employees of all state agencies.

EFFECT

Mileage and per diem reimbursements are not calculated accurately, and the Administration is not in compliance with the state statute.

CAUSE

The Administration did not adequately review the calculation for mileage reimbursement.

RECOMMENDATION

Although the reimbursement request was properly authorized by the employees' supervisor, we recommend that the rate calculation be re-checked before submittal of the reimbursement request voucher.

MANAGEMENT RESPONSE

The WCA acknowledges that in the one instance identified by the auditor, there was insufficient documentation of why the requested reimbursement of \$183.04 was reduced to \$173.48. There were multiple corrections made to the reimbursement request that may have led to calculation errors. The WCA management will review the agency's process for correcting travel and per diem vouchers so that any reduction is properly documented.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2014**

A. FINDINGS AND RESPONSES

2014-002 DEPOSITS OF PUBLIC MONIES (FINDINGS THAT DO NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY)

CONDITION

We tested 50 deposits (25 General Fund & 25 UEF Fund), of which 21 were not deposited in a timely manner.

CRITERIA

In accordance with Section 6-10-2 and 6-10-3 NMSA as well as Section 2.2.210 (M) NM State Auditor Rule 2014, and also NM State Treasurer Directive 2007-01, public monies are to be remitted to the Treasury by the next succeeding business day after receipt.

EFFECT

Deposits were not remitted within the next succeeding business day after receipt, and therefore are not in compliance with state regulations.

CAUSE

The Administration did not make the deposits daily.

RECOMMENDATION

In order to comply with the New Mexico State Statutes regarding the receipt and remittance of Public Monies, we recommend that the Administration make daily deposits whenever Public Monies are received that are required to be deposited.

MANAGEMENT RESPONSE

The WCA management has corrected this finding. All public monies are deposited with the fiscal agent by the next business day. A daily spreadsheet has been implemented that records the receipt date, receipt log date, deposit date, amount and program. This spreadsheet is checked daily by the Chief Financial Officer.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2014**

A. FINDINGS AND RESPONSES

2014-003 PROPER CODING OF DEPOSITS (FINDINGS THAT DO NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY)

CONDITION

We tested 50 deposits (25 General Fund & 25 UEF Fund), of which 2 were coded incorrectly to the wrong funds. Of the amounts tested, two deposits for \$19 and \$5 belonging to the General Fund were improperly recorded to the UEF fund. As a result, the General Fund accounts were understated by \$24 and the UEF Fund accounts were overstated by \$24.

CRITERIA

In accordance with Fund accounting, a *fund* is a self-balancing set of accounts, segregated for specific purposes in accordance with laws and regulations or special restrictions and limitations. The Administration receives Public Monies on behalf of their General Fund and the Uninsured Employer's Fund (UEF). In order to maintain the integrity of each funds reported assets, liabilities, net position, as well as revenues and expenditures, a proper segregation of receipts must be maintained at all times.

EFFECT

Deposits were improperly coded to the wrong fund.

CAUSE

In two cases, the Administration inadvertently included monies from the General Fund and the UEF fund in one single deposit, and as a result, General Fund amounts were improperly coded to the wrong fund.

RECOMMENDATION

We recommend that deposits of fund monies be made by preparing a separate deposit slip for each fund whenever monies are received by the Administration.

MANAGEMENT RESPONSE

The WCA management has implemented a process where separate deposits slips are made for the general fund and for the UEF fund. The journal entries recorded in the SHARE system are also recorded separately, one for the general fund and one for the UEF fund.

**STATE OF NEW MEXICO
WORKERS' COMPENSATION ADMINISTRATION
EXIT CONFERENCE
Year Ended June 30, 2014**

A. Exit Conference

An exit conference was held on December 10, 2014 to discuss the annual financial report. Attending were the following:

Representing the Workers' Compensation Administration:

Darin Childers	Director
Thomas Dow	Executive Deputy Director
Daniel Griego	Chief Financial Officer/Procurement Officer
Mark Plomer	Uninsured Employer's Fund Administrator

Representing the Independent Auditor:

Shawn Mortensen, CPA

B. Auditor Prepared Financial Statements

The Workers' Compensation Administration is responsible for the form and content of the accompanying financial statements which have been prepared substantially by the independent auditor with the assistance and approval of administration personnel.