



# HINKLE + LANDERS

Certified Public Accountants + Business Consultants

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

**INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**



**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
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**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
OFFICIAL ROSTER  
For the Year Ended June 30, 2017**

**OFFICIAL ROSTER  
June 30, 2017**

| <b>Name</b>       | <b>Title</b>                                 |
|-------------------|--|
| Darin A. Childers | Director                                     |
| Dana Chavez       | Executive Deputy Director - Operations       |
| Thomas Dow        | Executive Deputy Director - Support Services |
| Staci Tullar      | Chief Financial Officer                      |
| Lisa Liegeot      | General Counsel                              |



## **INDEPENDENT AUDITOR'S REPORT**

State of New Mexico Workers' Compensation Administration  
and  
Mr. Tim Keller, New Mexico State Auditor  
Office of the State Auditor  
Santa Fe, New Mexico

### **Report on the 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 funds of the Workers' Compensation Administration of the State of New Mexico (the Administration) as of and for the year ended June 30, 2017, 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 misstatement, 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, 2017, and the respective changes in financial position and the budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note P to the financial statements, the 2017 beginning balance of net position has been restated to correct the capital asset and accumulated depreciation balances.

**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the table of contents, 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 Administration's financial statements and the budgetary comparisons. The "other supplementary information", as identified in the table of contents, required by Section 2.2.2 NMAC are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other schedules, listed as "other supplementary information (audited)" in the table of contents, required by Section 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 auditing standards generally accepted in the United States of America. In our opinion, the additional schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2017 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.

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

Hinkle + Landers, PC  
Albuquerque, NM  
September 28, 2017

**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2017**

The following is a discussion and analysis of the State of New Mexico Workers' Compensation Administration financial performance, providing an overview of the activities for the fiscal year ended June 30, 2017. An outline of this agency's approach is to ensure achievement of its future goals and implementation of new projects and improvements. Please read it in conjunction with the Administration's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT**

**Government-Wide Highlights**

The assets of the Administration exceeded its liabilities at the close of the fiscal year by \$7,990,623 (reported as net position). Of this amount, \$7,388,551 (restricted net position) must be used primarily for workers' administration's program activities and \$602,072 is invested in capital assets.

The Administration's total net position decreased in fiscal year 2017 by a total of \$7,762,398, which was attributed to a change in net position of \$(7,826,632) and a restatement of \$64,234, associated with governmental activities. The Administration does not engage in business-type activities.

**Fund Highlights**

At the close of fiscal year 2017, the Administration's governmental funds reported combined ending fund balances of \$7,074,948, a decrease of \$7,814,105 from the prior year. This decrease was primarily due to multiple cash sweeps of the Administration's funds by the State of New Mexico.

**Long-Term Debt**

As in prior years, the Administration has not participated in the financing of capital assets through the sale of bonds or issuance of long-term notes. The only long-term debt incurred by the Administration is Accrued Compensated Absences. Compensated Absences increased by \$29,566 or 10% during the fiscal year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Administration's annual report consists of the following parts – management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Administration:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Administration's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Administration, reporting the Administration's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how general government services (the primary function of the Administration) were financed in the short-term as well as what remains for future spending or reversions.
  - Fiduciary fund statements provide information about the financial relationships in which



**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2017**

the Administration acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

- The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

**Government-Wide Statements**

The government-wide statements report information about the Administration as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Administration's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Administration's net position and how they have changed. Net position (the difference between the Administration's assets and liabilities) are one way to measure the Administration financial health or position.

- Over time, increases or decreases in the Administration's net position are indicators of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Administration, you need to consider additional non-financial factors such as changes in the Administration's funding or the addition/removal of a program.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the Administration's most significant funds, not the Administration as a whole. Funds are accounting devices that the Administration uses to keep track of specific sources of funding and spending for particular purposes. State law requires the establishment of certain funds. The State of New Mexico legislature establishes other funds to control and manage money for particular purposes or to show that it is properly using certain grant funding.

The Administration has two types of funds, Governmental and Fiduciary. The Administration does not have business-type activities and, therefore, does not maintain proprietary funds.

- **Governmental Funds**  
Most of the Administration's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the Administration's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2017**

• **Fiduciary Funds**

The Administration is the trustee, or fiduciary, for the Workers' Compensation-Penalty Fund. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Administration's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements are found in this report as noted in the Table of Contents.

**FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE**

**Net Position**

Net position measures the difference between what the Administration owns (assets) and what the Administration owes (liabilities). Net position may serve over time as a useful indicator of the Administration's financial position. The amount of total net position is one measure of the health of the Administration's finances. This measure must be used with care because large portions of the balances relate to capital assets that are unavailable to meet the day-to-day obligations of the Administration.

The Administration's overall financial position and operations for the past year are summarized as follows, based on the information included in the government-wide financial statements:

**State of New Mexico  
Workers' Compensation Administration  
Assets, Liabilities and Net Position  
As of June 30,**

| <b>Assets:</b>                                | 2017                | 2016              | Percent<br>Change |
|---|---------------------|-------------------|-------------------|
| Current assets                                | \$ 7,579,743        | 15,339,321        | -51%              |
| Non-current assets                            |                     |                   |                   |
| Receivables of penalties and assessments, net | 525,163             | 555,624           | -0.0548           |
| Capital assets, net                           | 602,072             | 529,768           | 14%               |
| Total assets                                  | <u>\$ 8,706,978</u> | <u>16,424,713</u> |                   |
| <br><b>Liabilities:</b>                       |                     |                   |                   |
| Current liabilities                           | \$ 716,238          | 671,692           | 7%                |
| Total liabilities                             | <u>716,238</u>      | <u>671,692</u>    |                   |
| <br><b>Net position:</b>                      |                     |                   |                   |
| Investment in capital assets                  | 602,072             | 529,768           | 14%               |
| Restricted                                    | -                   | 15,223,253        | -100%             |
| Total net position                            | <u>602,072</u>      | <u>15,753,021</u> |                   |
| <b>Total liabilities and net position</b>     | <u>\$ 1,318,310</u> | <u>16,424,713</u> |                   |

The largest portion of the Administration's net position, \$7,388,551 or 92%, restricted net position that may be used to meet the Administration's ongoing obligations to citizens and creditors. These assets may be used at the Administration's discretion but often have limitations on use based on state statutes.

**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2017**

The remaining balance of the Administration's net position, \$602,072 or 7%, represents capital assets. The Administration uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The condensed financial information, on the next page, was derived from the government-wide Statement of Activities and reflects how the Administration's net position changed during the fiscal year. As previously noted, the Administration does not engage in business-type activities and, therefore, only reports governmental and fiduciary activities.

**State of New Mexico  
Workers' Compensation Administration  
Changes in Net Position  
As of June 30,**

|  | 2017           | 2016       | Percent<br>Change |
|--|----------------|------------|-------------------|
| <b>Revenues:</b>                           |                |            |                   |
| Workers' compensation assessment           | \$ 12,709,954  | 13,338,780 | -5%               |
| Interest on investment                     | 21,909         | 8,088      | 171%              |
| Settlement Agreements                      | 30,323         | 211,110    | -86%              |
| Penalties                                  | 27,955         | 4,203      | 565%              |
| Total revenues                             | 12,790,141     | 13,562,181 |                   |
| <b>Expenses:</b>                           |                |            |                   |
| Administrative services                    | 10,286,307     | 10,154,094 | 1%                |
| Depreciation                               | 80,349         | 81,868     | -2%               |
| Other financial uses                       | 10,250,000     | 2,048,200  | 400%              |
| Total expenses                             | 20,616,656     | 12,284,162 |                   |
| <b>Increase (decrease) in net position</b> | \$ (7,826,515) | 1,278,019  |                   |

The Percent Change column shows the percentage change in operations from fiscal year 2016 to 2017 for each line item. The reader should be cautious when using this column to evaluate the overall change in net position. Although a line may show a large percentage change, it may not have as significant an effect as a change in a more material line item with a smaller percentage change.

Revenues for the Administration consist primarily of workers' compensation assessments. Workers' compensation assessments reported in fiscal years 2017 and 2016 were \$12,709,954 and \$13,338,780, respectively, an decrease of \$722,040. The decrease in workers' compensation assessments reflects a slight decrease in reported workers.

Total expenses for the Administration are all categorized as General Government in governmental activities. the Administration does not participate in any business-type activities.

General government expenses (not including depreciation) increased by \$132,330 from \$10,154,094, in fiscal year 2016, to \$10,286,424, in fiscal year 2017. This represents an increase of 1% and is primarily due to filling vacant positions quicker and maintaining two aging state buildings.

Depreciation expenses decreased from \$81,868, in fiscal year 2016, to \$80,349 in fiscal year 2017, an decrease of 2%.

**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2017**

**FINANCIAL ANALYSIS OF THE ADMINISTRATION'S FUNDS**

**Governmental Funds**

As noted earlier, the Administration uses fund accounting to ensure and demonstrate compliance with legal requirements. The general government functions are contained in the General and Special Revenue funds. The focus of the Administration's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

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).

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.

**Administration (General) Fund**

The Administration 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 Administration Fund is funded primarily from workers' compensation assessments paid by applicable employers throughout the State of New Mexico. Total fund balance decreased by \$8,157,071 or 76% from the June 30, 2016 fund balance. The fund balance decrease is mostly due to multiple cash sweeps of the Administration's funds by the State of New Mexico, during the fiscal year. This fund is non-reverting.

**Uninsured Employer's Fund Fund**

The Uninsured Employer's Fund (UEF) (SHARE Fund #98300) 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. Total fund balance increased by \$342,966 or 8% from the June 30, 2016 fund balance. This fund is non-reverting.

**ADMINISTRATION FUND BUDGETARY HIGHLIGHTS**

There were no differences between the original budget and the final amended budget for revenues. The difference between original budget and the final amended budget for expenses consisted of an increase of \$188,000 where the fund balance was reduced.

The variance between the final budget and actual in the expenditures section of the Administration Fund budgetary comparison was a favorable \$429,614. This was due to non-expenditure of budget in all three categories of expenditure: salaries and employee benefits, contractual services and other costs.

All adjustments to the Administration's budget were made with the approval of the State Budget Division.

**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2017**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2017, the Administration had \$602,072 invested in capital assets, net of accumulated depreciation, including furniture, fixtures, equipment, data processing equipment, and vehicles (see table below). This amount represents a net increase of \$72,305 or 14% over fiscal year 2016 figures. While governmental standards do not prescribe a minimum level for the capitalization of assets, the Administration has followed the Department of Finance and Administration's capitalization policy of \$5,000. This is the dollar value above which asset acquisitions are added to the capital accounts. As such, all capital assets with an original cost of less than \$5,000 that were purchased in the current fiscal year are not included on the reportable fixed asset list; however, remain on the physical inventory list for the Administration. During fiscal year 2017, the Administration purchased equipment. Depreciation charges for this fiscal year totaled \$80,349.

|                                    | <u>Balance<br/>2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>Adjustments</u> | <u>Balance<br/>2017</u> |
|------------------------------------|-------------------------|------------------|------------------|--------------------|-------------------------|
| Capital assets depreciated:        |                         |                  |                  |                    |                         |
| Office equipment                   | \$ 31,650               | -                | (11,014)         | 11,014             | 31,650                  |
| Furniture and fixtures             | 31,686                  | -                | -                | -                  | 31,686                  |
| Information technology equipment   | 341,574                 | 62,903           | (10,343)         | 54,257             | 448,391                 |
| Leasehold Improvements             | 508,491                 | 25,517           | -                | -                  | 534,008                 |
| Total capital assets depreciated   | <u>913,401</u>          | <u>88,420</u>    | <u>(21,357)</u>  | <u>65,271</u>      | <u>1,045,735</u>        |
| Less accumulated depreciation for: |                         |                  |                  |                    |                         |
| Office equipment                   | (28,485)                | (3,165)          | 11,014           | (11,014)           | (31,650)                |
| Furniture and fixtures             | (30,762)                | (925)            | -                | 927                | (30,760)                |
| Information technology equipment   | (256,189)               | (41,992)         | 10,343           | (1,957)            | (289,795)               |
| Leasehold Improvements             | (68,198)                | (34,267)         | -                | 11,007             | (91,458)                |
| Total accumulated depreciation     | <u>(383,634)</u>        | <u>(80,349)</u>  | <u>21,357</u>    | <u>(1,037)</u>     | <u>(443,663)</u>        |
| Total capital assets, net          | \$ <u>529,767</u>       | <u>8,071</u>     | <u>-</u>         | <u>64,234</u>      | <u>602,072</u>          |

As part of GASB 34 implementation, the Administration depreciated its capital assets using the straight-line depreciation method for all assets for which depreciation is applicable as instructed by the Department of Finance and Administration. In determining the estimated useful life, the Administration considered the asset's class, present condition, use of the asset and how long the asset was expected to meet service and technology standards. In all cases, salvage value was assumed to be zero.

**Long-Term Debt**

As in prior years, the Administration has not participated in the financing of capital assets through the sale of bonds or issuance of long-term notes.

**Infrastructure Assets**

Infrastructure assets are defined as long-lived capital assets that are normally stationary in nature and that can normally be maintained for a significantly greater number of years than most capital assets. Infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams

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WORKERS' COMPENSATION ADMINISTRATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2017**

and lighting systems. GASB 34 requires agencies with infrastructure assets to capitalize them and report major general infrastructure assets that were acquired in fiscal years ending after June 30, 1980, or that received major renovations, restorations or improvements during that period.

The Administration does not own any infrastructure assets and, as such, does not include any information under this heading.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Administration expects to maintain a steady revenue figure stream in fiscal year 2018. Expenditures are expected to be steady.

**CONTACTING THE ADMINISTRATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, creditors and the general public with a general overview of the Administration's finances and to show the Workers' Compensation Administration's accountability for the money it receives. Questions about this report or requests for additional financial 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  
GOVERNMENT-WIDE STATEMENT OF NET POSITION  
As of June 30, 2017**

|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| <b>ASSETS</b>  |                                    |
| <b>Current Assets</b>  |                                    |
| State general fund investment pool                                 | \$ 4,765,161                       |
| Petty cash   | 100                                |
| Receivables of penalties and assessments, net                      | 34,024                             |
| Due from other governmental agencies                               | <u>2,780,458</u>                   |
| Total current assets   | 7,579,743                          |
| <b>Non-Current Assets</b>  |                                    |
| Receivables of penalties and assessments, net                      | 525,163                            |
| Capital assets, net  | <u>602,072</u>                     |
| Total non-current assets   | <u>1,127,235</u>                   |
| <br>Total assets   | <br>\$ <u><u>8,706,978</u></u>     |
| <b>LIABILITIES</b>   |                                    |
| <b>Current liabilities</b>   |                                    |
| Accounts payable   | \$ 92,777                          |
| Accrued salaries and employee benefits                             | 307,611                            |
| Compensated absences payable - expected to be paid within one year | <u>315,850</u>                     |
| Total current liabilities  | <u>716,238</u>                     |
| <br>Total liabilities  | <br><u>716,238</u>                 |
| <b>NET POSITION</b>  |                                    |
| Investment in capital assets                                       | 602,072                            |
| Restricted   |                                    |
| Uninsured employer's future claims                                 | 2,302,487                          |
| Workers' compensation assessment                                   | <u>5,086,181</u>                   |
| Total net position   | <u>7,990,740</u>                   |
| <br>Total liabilities and net position                             | <br>\$ <u><u>8,706,978</u></u>     |

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
For The Year Ended June 30, 2017**

|  | <u><b>Governmental<br/>Activities</b></u> |
|--|---|
| <b>EXPENSES</b>  |   |
| <b>General government</b>                                    |   |
| Administrative services                                      | \$ 10,286,307                             |
| Depreciation expense   | 80,349                                    |
| Total program expenses                                       | <u>10,366,656</u>                         |
| <br>   |   |
| <b>REVENUES</b>  |   |
| <b>General revenues</b>                                      |   |
| Workers' compensation assessment                             | 12,709,954                                |
| Settlement agreements  | 30,323                                    |
| Penalties  | 27,955                                    |
| Interest on investment                                       | 21,909                                    |
| Total general revenues                                       | <u>12,790,141</u>                         |
| <br>   |   |
| <b>Transfers</b>   |   |
| Other financial sources (uses)                               | <u>(10,250,000)</u>                       |
| Total transfers  | <u>(10,250,000)</u>                       |
| <br>   |   |
| Total net general revenue and other financial sources (uses) | <u>2,540,141</u>                          |
| <br>   |   |
| Change in net position                                       | (7,826,515)                               |
| <br>   |   |
| Net position, beginning                                      | 15,753,021                                |
| Restatement  | 64,234                                    |
| Net position, beginning as restated                          | <u>15,817,255</u>                         |
| Net position, ending   | <u><u>\$ 7,990,740</u></u>                |

The accompanying notes are an integral part of these financial statements



**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
BALANCE SHEET - GOVERNMENTAL FUNDS  
As of June 30, 2017**

|  | <b>(98200)</b>        | <b>(98300)</b>   | <b>Total</b>        |
|--|-----------------------|------------------|---------------------|
|  | <b>Administration</b> | <b>Uninsured</b> | <b>Governmental</b> |
| <b>ASSETS</b>  | <b>Fund</b>           | <b>Employers</b> | <b>Funds</b>        |
| State general fund investment pool                                 | \$ 427,871            | 4,337,290        | 4,765,161           |
| Petty cash   | 100                   | -                | 100                 |
| Receivables of penalties and assessments, net                      | -                     | 559,187          | 559,187             |
| Due from other governmental agencies                               | 2,577,010             | 203,448          | 2,780,458           |
| Total assets   | <u>\$ 3,004,981</u>   | <u>5,099,925</u> | <u>8,104,906</u>    |
| <br><b>LIABILITIES</b>   |                       |                  |                     |
| Accounts payable   | 90,695                | 2,082            | 92,777              |
| Accrued salaries and employee benefits                             | \$ 295,949            | 11,662           | 307,611             |
| Current liabilities  | <u>386,644</u>        | <u>13,744</u>    | <u>400,388</u>      |
| <br><b>DEFERRED INFLOWS OF RESOURCES</b>                           |                       |                  |                     |
| Revenue not available to pay current period expenditures           | -                     | 629,453          | 629,453             |
| <br><b>FUND BALANCES</b>   |                       |                  |                     |
| <b>Restricted:</b>   |                       |                  |                     |
| Uninsured employers' future claims                                 | -                     | 4,456,728        | 4,456,728           |
| Workers' compensation assessment                                   | <u>2,618,337</u>      | -                | <u>2,618,337</u>    |
| Total fund balance   | <u>2,618,337</u>      | <u>4,456,728</u> | <u>7,075,065</u>    |
| Total liabilities, deferred inflows of resources, and fund balance | <u>\$ 3,004,981</u>   | <u>5,099,925</u> | <u>8,104,906</u>    |

**Reconciliation of the Governmental Fund Balance To The Statement of Net Position**

|   |                  |
|---|------------------|
| Total fund balance governmental funds   | 7,075,065        |
| Capital assets (net of depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds.     | 602,072          |
| Long-term assets (receivables) are not available to pay current period expenditures and, therefore, are deferred in the funds.                      | 629,453          |
| Long-term debt reported as accrued compensated absences is not due and payable in the current period and, therefore, are not reported in the funds. | <u>(315,850)</u> |
| Net position of governmental activities   | <u>7,990,740</u> |

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
WORKER'S COMPENSATION ADMINISTRATION  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2017**

|  | <b>(98200)</b>        | <b>(98300)</b>   |                     |
|--|-----------------------|------------------|---------------------|
|  | <b>Administration</b> | <b>Uninsured</b> | <b>Total</b>        |
|  | <b>Fund</b>           | <b>Employers</b> | <b>Governmental</b> |
|  | <b>Fund</b>           | <b>Fund</b>      | <b>Funds</b>        |
| <b>REVENUES</b>  |                       |                  |                     |
| Workers' compensation assessment                         | \$ 11,779,959         | 929,995          | 12,709,954          |
| Settlement agreements                                    | -                     | 21,354           | 21,354              |
| Penalties  | 27,955                | -                | 27,955              |
| Interest on investment                                   | -                     | 21,909           | 21,909              |
| Total revenues   | <u>11,807,914</u>     | <u>973,258</u>   | <u>12,781,172</u>   |
| <b>EXPENDITURES</b>                                      |                       |                  |                     |
| Current  |                       |                  |                     |
| General government:                                      |                       |                  |                     |
| Personal services and employee benefits                  | 8,101,921             | 313,135          | 8,415,056           |
| Contractual services                                     | 307,878               | 3,147            | 311,025             |
| Other costs  | 1,216,649             | 314,010          | 1,530,659           |
| Capital outlay   | 88,420                | -                | 88,420              |
| Total expenditures                                       | <u>9,714,868</u>      | <u>630,292</u>   | <u>10,345,160</u>   |
| Excess (deficiency) of revenue over (under) expenditures | 2,093,046             | 342,966          | 2,436,012           |
| <b>OTHER FINANCING SOURCES (USES)</b>                    |                       |                  |                     |
| Other financing sources (uses)                           | <u>(10,250,000)</u>   | -                | <u>(10,250,000)</u> |
| Net other financing sources (uses)                       | <u>(10,250,000)</u>   | -                | <u>(10,250,000)</u> |
| Net change in fund balance                               | (8,156,954)           | 342,966          | (7,813,988)         |
| Fund balance, beginning                                  | 10,775,291            | 4,113,762        | 14,889,053          |
| Fund balance, ending                                     | <u>\$ 2,618,337</u>   | <u>4,456,728</u> | <u>7,075,065</u>    |

**Reconciliation Of Statement Of Revenues, Expenditures, And Changes In Fund Balances Of Governmental Funds To Statement Of Activities**

Net change fund balance in governmental funds \$ (7,813,988)

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:

|                      |          |
|----------------------|----------|
| Depreciation expense | (80,349) |
| Capital additions    | 88,420   |

Revenues in statements of activities that do not provide current financial resources, are not reported as revenues in the funds. 8,968

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. These activities consist of:

|   |                 |
|---|-----------------|
| (Increase) decrease in compensated absences | <u>(29,566)</u> |
|---|-----------------|

|  |                       |
|--|-----------------------|
| Change in net position - governmental activities | <u>\$ (7,826,515)</u> |
|--|-----------------------|

**STATE OF NEW MEXICO**  
**WORKERS' COMPENSATION ADMINISTRATION**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET TO ACTUAL (MODIFIED ACCRUAL BUDGETARY BASIS)**  
**ADMINISTRATION FUND (98200)**  
**For The Year Ended June 30, 2017**

|   | <u>Budgeted Amounts</u> |                     | <u>Actual<br/>Amounts<br/>(Budgetary<br/>Basis)</u> | <u>Variance with<br/>Final Budget<br/>Favorable<br/>(Unfavorable)</u> |
|---|-------------------------|---------------------|---|---|
|   | <u>Original</u>         | <u>Final</u>        |   |   |
| <b>REVENUES</b>   |                         |                     |   |   |
| Workers' compensation assessments   | \$ 11,456,600           | 11,456,600          | 11,779,959  | 323,359   |
| Penalties   | -                       | -                   | 27,955  | 27,955  |
| Total revenues  | <u>11,456,600</u>       | <u>11,456,600</u>   | <u>11,807,914</u>                                   | <u>351,314</u>  |
| <b>EXPENDITURES</b>   |                         |                     |   |   |
| Current:  |                         |                     |   |   |
| Personal services   | 8,203,300               | 8,203,300           | 8,101,921   | 101,379   |
| Contractual services  | 300,600                 | 380,600             | 307,878   | 72,722  |
| Other costs   | 1,452,700               | 1,472,280           | 1,216,649   | 255,631   |
| Capital outlay  | -                       | 88,420              | 88,420  | -   |
| Total expenditures  | <u>9,956,600</u>        | <u>10,144,600</u>   | <u>9,714,868</u>                                    | <u>429,732</u>  |
| Excess (deficiency) of revenues over<br>(under) expenditures                                    | <u>1,500,000</u>        | <u>1,312,000</u>    | <u>2,093,046</u>                                    | <u>781,046</u>  |
| <b>OTHER FINANCING SOURCES (USES)</b>   |                         |                     |   |   |
| <b>Inter-agency Transfers</b>   |                         |                     |   |   |
| Other financing sources (uses )   | <u>(1,500,000)</u>      | <u>(10,250,000)</u> | <u>(10,250,000)</u>                                 | <u>-</u>  |
| Total Interagency transfers   | <u>(1,500,000)</u>      | <u>(10,250,000)</u> | <u>(10,250,000)</u>                                 | <u>-</u>  |
| Net change in fund balance  |                         |                     | \$ 12,343,046                                       |   |
| Fund balance, beginning   |                         |                     | <u>10,775,291</u>                                   |   |
| Restatement for deferred inflows-unavailable revenue  |                         |                     |   |   |
| Fund balances, beginning of year, as restated   |                         |                     |   |   |
| Fund balance, ending  |                         |                     | <u>\$ 23,118,337</u>                                |   |
| Total modified GAAP budget basis expenditures for FY 17   |                         |                     | <u>\$ 9,714,868</u>                                 |   |
| Total modified GAAP Basis Governmental Fund Expenditures for fiscal<br>year ended June 30, 2017 |                         |                     | <u>\$ 9,714,868</u>                                 |   |

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
 WORKERS' COMPENSATION ADMINISTRATION  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET TO ACTUAL (MODIFIED ACCRUAL BUDGETARY BASIS)  
 UNINSURED EMPLOYERS FUND (98300)  
 For The Year Ended June 30, 2017**

|   | <u>Budgeted Amounts</u> |                  | <u>Actual<br/>Amounts<br/>(Budgetary<br/>Basis)</u> | <u>Variance with<br/>Final Budget<br/>Favorable<br/>(Unfavorable)</u> |
|---|-------------------------|------------------|---|---|
|   | <u>Original</u>         | <u>Final</u>     |   |   |
| <b>REVENUES</b>   |                         |                  |   |   |
| Workers' compensation assessments   | 1,186,800               | 1,186,800        | 929,995   | (256,805)   |
| Investment income   | \$ -                    | -                | 21,909  | 21,909  |
| Settlements   | -                       | -                | 21,354  | 21,354  |
| Total revenues  | <u>1,186,800</u>        | <u>1,186,800</u> | <u>973,258</u>                                      | <u>(213,542)</u>  |
| <b>EXPENDITURES</b>   |                         |                  |   |   |
| Current:  |                         |                  |   |   |
| Personal services   | 322,800                 | 322,800          | 313,135   | 9,665   |
| Contractual services  | 100,000                 | 100,000          | 3,147   | 96,853  |
| Other costs   | 764,000                 | 764,000          | 314,010   | 449,990   |
| Total expenditures  | <u>1,186,800</u>        | <u>1,186,800</u> | <u>630,292</u>                                      | <u>556,508</u>  |
| Excess (deficiency) of revenues over<br>(under) expenditures                                    | <u>-</u>                | <u>-</u>         | <u>342,966</u>                                      | <u>342,966</u>  |
| <b>OTHER FINANCING SOURCES (USES)</b>   |                         |                  |   |   |
| <b>Inter-agency Transfers</b>   |                         |                  |   |   |
| Other financing sources (uses )   | -                       | -                | -   | -   |
| Total Interagency transfers   | <u>-</u>                | <u>-</u>         | <u>-</u>  | <u>-</u>  |
| Net change in fund balance  |                         |                  | \$ 342,966  |   |
| Fund balance, beginning   |                         |                  | <u>4,113,762</u>                                    |   |
| Restatement for deferred inflows-unavailable revenue  |                         |                  | -   |   |
| Fund balances, beginning of year, as restated   |                         |                  |   |   |
| Fund balance, ending  |                         |                  | <u>\$ 4,456,728</u>                                 |   |
| Total modified GAAP budget basis expenditures for FY 17   |                         |                  | <u>\$ 630,292</u>                                   |   |
| Total modified GAAP Basis Governmental Fund Expenditures for fiscal<br>year ended June 30, 2017 |                         |                  | <u>\$ 630,292</u>                                   |   |

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS  
As of June 30, 2017**

|                           | <u>Agency<br/>Fund</u>  |
|---------------------------|-------------------------|
| <b>ASSETS</b>             |                         |
| Accounts receivable       | \$ <u>17,450</u>        |
| Total assets              | \$ <u><u>17,450</u></u> |
| <b>LIABILITIES</b>        |                         |
| Due to State General Fund | \$ <u>17,450</u>        |
| Total liabilities         | \$ <u><u>17,450</u></u> |

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017**

**A. NATURE OF BUSINESS AND REPORTING ENTITY**

The Workers' Compensation Administration (WCA) (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 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, NMSA 1978) and the New Mexico Occupational Disease Disablement Law (Chapter 52, Article 3, NMSA 1978).

The financial reporting entity as defined by GASB Statement 14 and 61 consists 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."

These financial statements include all funds and activities over which the Administration has oversight responsibility. The Administration has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. Additionally, the Administration 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, when it issues an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP and GASB Statement 14 and 61.

The basic, but not the only criterion for including a potential component unit within the reporting entity, is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Administration is able to exercise oversight responsibility. Based on the application of these criteria, there are no component units identified or excluded from the reporting entity.

**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017**

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Basic Financial Statements**

The financial statements of the Administration have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Account Standards Board (GASB) is the accepted Standard-setting body for establishing governmental Accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting 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.

The basic financial statements include both government-wide (based on the Administration as a whole) and fund financial statements. The reporting model focus is on either the Administration as a whole or major individual fund (within the 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 activities. In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources measurement focus basis, which incorporates long-term assets, deferred outflows and receivables as well as long-term debt and obligations. The Administration did not have any business-type activities during the year ended June 30, 2017.

For its government-wide activities, the Administration has elected to apply all applicable GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

General Revenues (workers' compensation assessments, General Fund appropriation, transfers-in from other state agencies, etc.) normally cover the net cost (by function). Historically, the previous model did not summarize or present net cost by function or activity.

Grant revenues are recognized as soon as the eligibility requirements are met.

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. The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) 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 activities column, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental activities column on the governmental wide presentation.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with specific function or segment. *Program revenues* derive directly from the program itself or from parties outside the reporting government's taxpayers or citizenry as a whole and include operating grants and contracts that are restricted to meeting the operational necessities of a particular

**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017**

compliance grant requirement. The Administration has no revenues that meet the definition of program revenues.

**2. Basis of Presentation**

The financial transactions of the Administration are maintained on the basis of 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, deferred outflows, liabilities, deferred inflows, fund balance, revenues, expenditures 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 various funds are summarized by the type and reported by generic classification the accompanying financial statements.

The reporting model, GASB Statement No. 34, sets forth minimum criteria for the determination of major funds based on a percentage of the assets, deferred outflows, liabilities, deferred inflows, revenues or expenditures. The Administration fund is always considered a major fund. The Administration has elected to consider all their special revenue funds as major funds regardless of size. Major individual governmental funds are reported as separate columns in the fund financial statements.

In the governmental fund financial statements, per GASB Statement No. 54, fund balances are classified as nonspendable, restricted or unrestricted (committed, assigned or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or in some cases by legislation. See Notes 6 and 7 for additional information about fund balances.

**The following are the Administration's major Governmental Funds:**

***Administration 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 Administration Fund is funded primarily from workers' compensation assessments paid by applicable employers throughout the State of New Mexico. The Administration Fund is a non-reverting fund as per the Workers' Compensation Act.

***Uninsured Employer's Fund (SHARE Fund #98300)*** is created by Laws of 2003 Chapter 258. 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.

**The following is the Administration's Fiduciary Fund:**

The Administration also has a fiduciary fund (trust and agency funds) used to account for assets held by the Administration in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Trust and agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.



**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017**

**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.

**3. Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures or expenses 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 and the fiduciary financial statements are presented on a full-accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis.

The statement of net position and the statement of activities are prepared using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. By definition, the resources of fiduciary funds are not available to support the Administration programs. Therefore, fiduciary funds are excluded from the government-wide financial statements.

The Administration 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.

**4. Budgetary Data**

The New Mexico State Legislature makes annual appropriations to the Administration. 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 limitation as specified in the General Appropriation Act. The budget amounts shown in the financial statements are both the original appropriation and the final authorized amounts as legally revised during the year.

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

1. No later than September 1, the Administration submits to the Legislative Finance Committee (LFC) and the Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July. The appropriation 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 these hearings is incorporated into the General Appropriations Act.
3. The Administration's budget for the fiscal year ending June 30, 2017 was amended in a legally permissible manner by increasing or reallocating appropriation unit totals as the need arose during the fiscal year. Individual amendments were not material in relation to the original budget.

**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017**

4. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit.
5. The Administration submits, no later than May 1st, to DFA an annual operating budget by appropriation unit and object code based upon the appropriations made by the Legislature. The DFA - Budget Division reviews and approves the operating budget which becomes effective on July 1.
6. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund and the Special Revenue Funds.
7. Appropriations lapse at the end of the year except for those amounts encumbered with the exception of appropriations presented in the "schedule of special, deficiency, specific and capital outlay appropriation" as referenced in the table of contents of this report, if applicable.
8. Budgets for the General Fund and Special Revenue Funds are presented on the modified accrual basis of accounting. Encumbrances related to single year appropriations lapse at year end. The portion of an encumbrance representing goods and services received by the last day of the fiscal year should be reclassified as accounts payable. Any remaining encumbrances related to single year appropriations must be reclassified as unreserved fund balance and a liability recorded to recognize any amount subject to reversion. Budgetary comparisons presented for the General fund and Special Revenue fund in this report are on the modified accrual budgetary basis, which does not conform to accounting principles generally accepted in the United States of America as encumbrances are treated as expenditures. This procedure conforms to Department of Finance and Administration and state requirements.
9. The budget for this State Agency 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 statutory deadline (Section 6-10-4 NMSA 1978), that must be paid out of next year's budget. See Note G for amounts paid out of different budget years.
10. 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.
11. If there are appropriations for multiple years and related funds are encumbered, there is a reservation of fund balance for encumbrances in the financial statements. This State Agency has no encumbered funds outstanding as of June 30, 2017.
12. The legal level of budgetary control is at the appropriation program level.

**5. 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.

**6. Net Position**

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

*Investment in Capital Assets* (net of related debt) – is intended to reflect the portion of net position which is 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. The Administration did not have any related debt during the year ended June 30, 2017.

**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017**

*Restricted Net Position* – is intended to reflect the portion of net position that has third party limitations on its use.

*Unrestricted (Deficit) Net Position* – represents net position of the Administration that is not restricted for any project or other purpose.

**7. GASB Statement #54**

In February 2009, the GASB issued Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement 54.

As a result, in the governmental fund financial statements, fund balances previously reported as reserved and unreserved are now reported as nonspendable, restricted, or unrestricted (committed, assigned or unassigned).

**8. Spending Policy**

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the Administration's policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the Administration's policy to spend committed resources first.

**9. Net Position Restricted by Enabling Legislation**

The government-wide statement of net position reports restricted net position. All the restricted net position is considered restricted by enabling legislation. The Administration has reviewed each of the classifications and has determined that fund balances are restricted for Uninsured employers' future claims in compliance with § 52-1-9.1 NMSA 1978, and for Administration fund workers' compensation assessments in accordance with § 52-5-19 NMSA 1978. The enabling legislation has been determined to be legally enforceable. Legal enforceability means that a government can be compelled by an external party-such as citizens, public interest groups, or the judiciary-to use resources created by enabling legislation only for the purposes specified by the legislation. Generally, the enforceability of an enabling legislation restriction is determined by professional judgment, which may be based on actions such as analyzing the legislation to determine if it meets the qualifying criteria for enabling legislation, reviewing determinations made for similar legislation of the government or other governments, or obtaining the opinion of legal counsel. However, enforceability cannot ultimately be proven unless tested through the judicial process, which may never occur. The determination of legal enforceability should be based on the underlying facts and circumstances surrounding each individual restriction. The determination that a particular restriction is not legally enforceable may lead a government to reevaluate the legal enforceability of similar enabling legislation restrictions, but should not necessarily lead a government to conclude that all enabling legislation restrictions are unenforceable.

**10. Fund Balance**

The Administration's fund balance is classified under the following GASB Statement 54 components:

- **Nonspendable:** Nonspendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. the Administration does not have any nonspendable fund balance for the

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year ended June 30, 2017.

- **Restricted:** Restricted fund balance represents amounts constrained to specific purposes that are externally imposed or imposed by law through constitutional provisions or enabling legislation (such as taxpayers, grantors, bondholders, and higher levels of government). The Administration's restricted funds in the Administration Fund and Uninsured Employers Fund represent restricted funds held for the Administration's uninsured employers' future claims and for operations, for the year ended June 30, 2017.
- **Committed:** Committed fund balance is constrained to specific purposes by the highest level of decision-making authority (the New Mexico Legislature and Governor). The Administration does not have any committed fund balance for the year ended June 30, 2017.
- **Assigned:** Assigned fund balance is constrained by the Legislature and Executive branch's intent to be used by the government for specific purposes or in some cases by legislation. Intent can be expressed by the governing body or an official or body to which the governing body delegates authority. The Administration does not have any assigned fund balance for the year ended June 30, 2017.
- **Unassigned:** Unassigned fund balance is the residual classification for the government's general fund. The Administration does not currently have a minimum fund balance policy. The Administration doesn't have unassigned fund balance.

**11. Modified Accrual**

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period which is considered to be within sixty days of year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33, which was also adopted as of July 1, 2001 by the Administration, the provider should recognize liabilities, deferred inflows and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met, resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue/unearned revenue by the recipient.

The interfund transactions are eliminated. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "transfers in or out from other funds". If the New Mexico State Legislature provides a new appropriation for a specific encumbrance, it is carried forward to a new appropriation period to be charged against the new budget. If the Legislature does not provide a new appropriation for an encumbrance, the encumbrance is no longer authorized.

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**12. Revenues, Expenditures and Expenses**

Substantially all governmental fund revenues are accrued. The only revenues that the Administration receives other than workers' compensation assessments are from settlement agreements, penalties, and investment income.

Expenditures are recognized when the related fund liability is incurred.

**13. 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, deferred outflows, liabilities, deferred inflows and disclosure of contingent assets, deferred outflows, liabilities and deferred inflows at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**14. Inter-fund Activity**

Inter fund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

**15. Receivables**

Receivables consist of amounts due from other governmental agencies and workers' compensation agreements.

**16. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits as well as short-term investments.

**17. Capital Assets**

Capital assets including software, purchased or acquired, is carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market values as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

The State's capitalization policy, i.e., the dollar value above which asset acquisitions including software are added to the capital accounts, was changed to \$5,000 as of July 1, 2005 from \$1,000. Assets with historical cost under \$5,000 and over \$1,000 that capitalized prior to July 1, 2005 remain on the Administration's capital assets schedule. However, all capital outlay purchases may not necessarily be capitalized. The Administration does not capitalize any interest in regard to its capital assets. Computer software which has been developed for internal use and which meets the capitalization minimum of \$5,000 is capitalized and depreciated in accordance with the Administration's depreciation guidelines. There is no debt related to capital assets.

|                                  |            |
|----------------------------------|------------|
| Furniture and fixtures           | 5-20 years |
| Information technology equipment | 5-10 years |
| Office equipment                 | 5-10 years |

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**18. Accrued Compensated Absences**

Qualified employees accumulated annual leave as follows:

| <b>Years of<br/>Service</b> | <b>Hours<br/>Earned<br/>Per Month</b> | <b>Days<br/>Earned<br/>Per Month</b> | <b>Days of<br/>Maximum<br/>Accrual</b> |
|-----------------------------|---------------------------------------|--------------------------------------|--|
| 0-10                        | 9.99                                  | 1.25                                 | 30                                     |
| 11-14                       | 12.00                                 | 1.50                                 | 30                                     |
| 15+                         | 13.33                                 | 1.67                                 | 30                                     |

240 hours 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 240 hours. 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 year end, 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. At June 30, 2017, accrued compensated absences payable for accumulated annual leave totaled \$315,850.

**19. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applied to a future period and so will not be recognized as an expense or expenditure until then. The Administration has no items that meet this criterion.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applied to a future period and so will not be recognized until then. The Administration has the following deferred inflows of resources during fiscal year 2017 on the fund financials:

| <b><u>Deferred Inflows of Resources</u></b> |                          |
|---|--------------------------|
|   | <b><u>2017</u></b>       |
| Outstanding UEF revenues                    | \$ <b><u>629,453</u></b> |
| Total deferred inflows of resources         | \$ <b><u>629,453</u></b> |

**C. INTEREST IN THE STATE GENERAL FUND INVESTMENT POOL**

State law (Section 8-6-3 NMSA 1978) requires the Department'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.

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For further information regarding the SGFIP, please see the State Treasurer's annual audit report and specifically refer to the GASB 40 disclosure of the investments. That report may be obtained by writing to the New Mexico State Treasurer's Office, P.O. Box 608, Santa Fe, NM 87504-0708.

At June 30, 2017 the Administration had the following invested in the SGFIP:

| <u>Fund<br/>Type</u>               | <u>Location</u> | <u>Fund No.</u> | <u>Per<br/>Depository</u> | <u>Financial<br/>Statements</u> |
|------------------------------------|-----------------|-----------------|---------------------------|---------------------------------|
| General                            | STO             | 98200           | \$ 427,871                | 427,871                         |
| <b>Total General Fund</b>          |                 |                 | <u>427,871</u>            | <u>427,871</u>                  |
| Special revenue                    | STO             | 98300           | 4,337,290                 | 4,337,290                       |
| <b>Total Special Revenue Funds</b> |                 |                 | <u>4,337,290</u>          | <u>4,337,290</u>                |
| <b>Total Fund Financials</b>       |                 |                 | <u>\$ 4,765,161</u>       | <u>4,765,161</u>                |

There were no deposits in transit as of June 30, 2017. The Office of the State Treasurer (STO) accounts are interest bearing accounts but no interest income was allocated to the Administration.

**Custodial Credit Risk—Investment Accounts**

The Office of the State Treasurer (STO) monitors the collateral for deposits it holds, which would include the investment accounts of the Administration. Therefore, collateralization of the Administration's accounts is the responsibility of the STO. The STO has its own separate annual independent audit in which the collateral pledged to secure these deposits is disclosed. By law, the Administration is not permitted to have any investments other than what is held at the State Treasurer's Office and the Administration did have investments in the State Treasurer Local Government Investment Pool during the year ended June 30, 2017. There is no custodial risk at the Administration level since the Administration's investments are under the contract of the Office of the State Treasurer.

**State General Fund Investment Pool Reconciliation**

On August 8, 2016, the New Mexico Department of Finance and Administration, Financial Control Division issued a memorandum regarding the reconciliation of the State General Fund Investment Pool. It stated that the Financial Control Division in collaboration with the State Treasurer's Office, implemented a comprehensive reconciliation model that compared aggregated agency claims on the State General Fund Investment Pool and to the associated resources held by the State Treasurer's Office. This process now has been reviewed by the IPAs performing audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Comprehensive Annual Financial Report for fiscal year 2015. Each review of the process deemed it to be adequate and the findings related to Cash Reconciliation were significantly reduced or eliminated. Successfully addressing this issue allowed the Department to reinstate \$100M that had been reserved as a loss contingency.

For fiscal year 2016 and subsequent years, the following assertions are provided;

1. The calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range < \$200k standard deviation) over the last twelve months;
2. Resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP, and
3. All claims will be honored at face value.

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As part of the Administration's cash controls, all incoming funds and outgoing disbursements are tracked to ensure transactions are properly entered into SHARE and posted to the general ledger. Additionally, at year end, the Administration performs a cash analysis on all funds to ensure the activity affecting the cash accounts properly reflect the ending balances at year-end.

**Credit Risk for Investments**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The GFIP is not rated for credit risk.

**Interest Rate Risk for Investments**

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

**D. DUE FROM OTHER GOVERNMENTS**

As of June 30, 2017, due from other governments consist of:

| <u>Due from</u> | <u>Due From</u><br><u>Fund</u> | <u>Due To</u><br><u>Fund</u> | <u>Purpose</u>                   | <u>Amount</u>       |
|-----------------|--------------------------------|------------------------------|----------------------------------|---------------------|
| TRD (33300)     | 83100                          | 98200                        | Workers compensation assessments | \$ 2,577,010        |
| TRD (33300)     | 83100                          | 98300                        | Workers compensation assessments | 203,448             |
|                 |                                |                              |                                  | <u>\$ 2,780,458</u> |

An allowance for doubtful accounts has not been established related to the due from other governments, as all receivables are considered fully collectible.

**E. DUE TO OTHER GOVERNMENTS**

As of June 30, 2017, no funds were due to other governments.

**F. RECEIVABLES**

As of June 30, 2017, accounts receivables consisted of the following:

| <u>Fund</u> | <u>Account</u>           | <u>Accounts</u><br><u>Receivable</u> | <u>Allowance for</u><br><u>Uncollectible</u><br><u>Accounts</u> | <u>Accounts</u><br><u>Receivable, net</u> |
|-------------|--------------------------|--------------------------------------|---|---|
| 98300       | UEF judgments receivable | \$ 1,431,941                         | (872,754)   | 559,187                                   |
| 59600       | Penalties receivable     | 17,450                               | -   | 17,450                                    |
|             | Total                    | <u>\$ 1,449,391</u>                  | <u>(872,754)</u>  | <u>576,637</u>                            |

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

**G. RECONCILIATION BETWEEN BUDGETARY BASIS AND GAAP BASIS**

As of June 30, 2017, the Administration had no amounts expensed in fiscal year 2017, and paid out of fiscal year 2018's budget.



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**H. ACCRUED LIABILITIES**

As of June 30, accrued liabilities are as follows:

| <b>Type</b>              | <b>2017</b> |
|--------------------------|-------------|
| Accrued payroll wages    | \$ 137,962  |
| Accrued payroll taxes    | 54,859      |
| Accrued payroll benefits | 114,789     |
| Total                    | \$ 307,610  |

**I. COMPENSATED ABSENCES**

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

|                      | <b>2016</b> | <b>Increases</b> | <b>Decreases</b> | <b>2017</b> | <b>Current<br/>Portion</b> |
|----------------------|-------------|------------------|------------------|-------------|----------------------------|
| Compensated absences | \$ 286,284  | 581,688          | (552,122)        | 315,850     | 315,850                    |

The Administrative Fund (#98200) has paid substantially all of the compensated absences balance in prior years.

**J. 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 .1 H 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.

**K. INTERFUND RECEIVABLES AND PAYABLES AND INTERFUND TRANSFERS**

Interfund receivables and payables reflect short-term (current) borrowings among the Administration's

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funds in the normal course of business. The Administration had no due to/from other funds as of June 30, 2017.

**L. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017 was as follows:

|                                    | <u>Balance<br/>2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>Adjustments</u> | <u>Balance<br/>2017</u> |
|------------------------------------|-------------------------|------------------|------------------|--------------------|-------------------------|
| Capital assets depreciated:        |                         |                  |                  |                    |                         |
| Office equipment                   | \$ 31,650               | -                | (11,014)         | 11,014             | 31,650                  |
| Furniture and fixtures             | 31,686                  | -                | -                | -                  | 31,686                  |
| Information technology equipment   | 341,574                 | 62,903           | (10,343)         | 54,257             | 448,391                 |
| Leasehold Improvements             | 508,491                 | 25,517           | -                | -                  | 534,008                 |
| Total capital assets depreciated   | <u>913,401</u>          | <u>88,420</u>    | <u>(21,357)</u>  | <u>65,271</u>      | <u>1,045,735</u>        |
| Less accumulated depreciation for: |                         |                  |                  |                    |                         |
| Office equipment                   | (28,485)                | (3,165)          | 11,014           | (11,014)           | (31,650)                |
| Furniture and fixtures             | (30,762)                | (925)            | -                | 927                | (30,760)                |
| Information technology equipment   | (256,189)               | (41,992)         | 10,343           | (1,957)            | (289,795)               |
| Leasehold Improvements             | (68,198)                | (34,267)         | -                | 11,007             | (91,458)                |
| Total accumulated depreciation     | <u>(383,634)</u>        | <u>(80,349)</u>  | <u>21,357</u>    | <u>(1,037)</u>     | <u>(443,663)</u>        |
| Total capital assets, net          | <u>\$ 529,767</u>       | <u>8,071</u>     | <u>-</u>         | <u>64,234</u>      | <u>602,072</u>          |

The Administration does not have any debt related to capital assets at June 30, 2017. For the year ended June 30, 2017, depreciation expense was \$80,349. See Note P for information on the adjustments made to capital assets.

**M. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**Plan Description.** Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2017.

The Administration, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the next pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

**Funding Policy:** Plan members are required to contribute 8.92% of their gross salary. the Administration is required to contribute 16.99% of the gross covered salary. The contribution

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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 Administration's contributions to PERA for the fiscal years ending June 30, 2017, 2016 and 2015 were \$945,948, \$955,700, and \$930,779, less the amounts disclosed in the JRA Pension plan shown below respectively, which equal the amount of the required contributions for each fiscal year.

**N. POST-EMPLOYMENT BENEFITS—STATE RETIREE HEALTH CARE PLAN**

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

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

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

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

The 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;

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municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2017, 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 who were not members of an enhanced retirement plan during the fiscal year ended June 30, 2017, 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, 2017, 2016, and 2015 were \$111,353, \$112,501, and \$109,606, respectively, which equal the required contributions for each year.

**O. OPERATING LEASES**

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

**Buildings and Structures**

The Administration leases office space at five locations throughout the State. The terms of the leases are from one to 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.

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

| <b>For the Year<br/>Ended June 30</b> | <b>Amount</b>       |
|---------------------------------------|---------------------|
| 2018                                  | \$ 161,070          |
| 2019                                  | 147,170             |
| 2020                                  | 147,170             |
| 2021                                  | 147,170             |
| 2022                                  | 139,772             |
| Thereafter                            | 291,294             |
| Total                                 | <u>\$ 1,033,646</u> |

The cumulative expenditures for all operating leases for the year ended June 30, 2017 were \$263,402.

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**P. RESTATEMENTS**

The Administration had the following restatement in fiscal year 2017:

| <b>Purpose/Reason</b>   | <b>Amount</b> |
|---|---------------|
| <i>Government-Wide</i>  |               |
| To adjust capital assets and accumulated depreciation to actual | \$ 64,234     |
| Total government-wide restatement                               | \$ 64,234     |

**Q. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES**

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

- A. No funds maintained a deficit fund balance of June 30, 2017.
- B. No funds exceeded approved budgetary authority for the year ended June 30, 2017.

**R. EVALUATION OF SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the balance sheet/net position date but before the financial statements are issued. The Administration recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet/net position, including the estimates inherent in the process of preparing the financial statements. The Administration's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet/net position but arose after the balance sheet/net position date and before financial statements are available to be issued. The Administration has evaluated subsequent events through September 28, 2017, which is the date the financial statements were available to be issued.

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**SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES-AGENCY FUNDS**  
**For The Year Ended June 30, 2017**

|                                    | <b>2016</b> | <b>Receipts</b> | <b>Disbursements</b> | <b>2017</b> |
|------------------------------------|-------------|-----------------|----------------------|-------------|
| <b>SHARE FUND (59600):</b>         |             |                 |                      |             |
| <b>ASSETS</b>                      |             |                 |                      |             |
| Accounts receivable                | \$ 5,250    | 19,550          | (7,350)              | 17,450      |
|                                    | \$ 5,250    | 19,550          | (7,350)              | 17,450      |
| <b>LIABILITIES</b>                 |             |                 |                      |             |
| Deposits held in custody of others | \$ 5,250    | 19,550          | (7,350)              | 17,450      |
|                                    | \$ 5,250    | 19,550          | (7,350)              | 17,450      |

**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
SCHEDULE OF INTERAGENCY TRANSFERS  
For The Year Ended June 30, 2017**

| Description   | Agency<br>Transferred<br>From | From<br>Fund | To<br>Fund | Reference                                      | Amount<br>Transferred<br>In  |
|---|-------------------------------|--------------|------------|--|------------------------------|
| <b>State Appropriations</b>                                     |                               |              |            |  |                              |
| <b>Administration Fund</b>                                      |                               |              |            |  |                              |
| Workers compensation assessments collected by other agency      | TRD (33300)                   | 83100        | 98200      | Workers compensation assessments               | \$ 9,202,949                 |
| Workers compensation assessments receivable as of June 30, 2017 | TRD (33300)                   | 83100        | 98200      | Workers compensation assessments               | 2,577,010                    |
| Total Administration Fund                                       |                               |              |            |  | <u>\$ 11,779,959</u>         |
| <b>Uninsured Employers Fund</b>                                 |                               |              |            |  |                              |
| Workers compensation assessments collected by other agency      | TRD (33300)                   | 83100        | 98300      | Workers compensation assessments               | \$ 726,547                   |
| Workers compensation assessments receivable as of June 30, 2017 | TRD (33300)                   | 83100        | 98300      | Workers compensation assessments               | 203,448                      |
| Total Uninsured Employers Fund                                  |                               |              |            |  | <u>\$ 929,995</u>            |
| <b>Total Transfers In</b>                                       |                               |              |            |  | <u>\$ 12,709,954</u>         |
| Description   | Agency<br>Transferred<br>To   | From<br>Fund | To<br>Fund | Reference                                      | Amount<br>Transferred<br>Out |
| <b>Administration Fund</b>                                      |                               |              |            |  |                              |
| Other Financing Uses  | DFA (34101)                   | 98200        | 85300      | Laws 2016, 2nd Session, Section 2-A-9          | \$ 6,500,000                 |
| Other Financing Uses  | DFA (34101)                   | 98200        | 85300      | Laws 2016, 2nd Special Session, Section 3-A-46 | 1,000,000                    |
| Other Financing Uses  | DFA (34101)                   | 98200        | 85300      | Laws 2017, 1st Session, Section 5-Q            | 1,250,000                    |
| Other Financing Uses  | DSW (63100)                   | 98200        | 32900      | HB2: General Appropriation Act of 2016         | 1,500,000                    |
|   |                               |              |            |  | <u>10,250,000</u>            |
| <b>Total Transfers Out</b>                                      |                               |              |            |  | <u>\$ 10,250,000</u>         |

**STATE OF NEW MEXICO  
 WORKERS' COMPENSATION ADMINISTRATION  
 Schedule of Joint Powers Agreements  
 For the Year Ended June 30, 2017**

| Joint Powers Agreement | Participants  | Responsible Party | Description             | Beginning and Ending Dates | Total estimated project amount and amount applicable to Agency | Amount contributed by Agency during current FY | Audit Responsibility |
|------------------------|---|-------------------|-------------------------|----------------------------|--|--|----------------------|
| 1<br>JPA               | Workforce Solutions Department<br>NM Workers' Compensation Administration | WSD               | Provide employment data | Open                       | \$0  | \$0  | Both                 |





**INDEPENDENT AUDITOR'S 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***

State of New Mexico Workers' Compensation Administration  
and  
Mr. Tim Keller, New Mexico State Auditor  
Office of the State Auditor  
Santa Fe, 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 the *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 of the general fund and major special revenue funds of the Workers' Compensation Administration, of the State of New Mexico (the Administration) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements, and the related budgetary comparisons of the Administration, presented as supplementary information, and have issued our report thereon dated September 28, 2017.

**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 agency'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.

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 or significant deficiencies.

September 28, 2017

INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND  
COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS, continued

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Administration's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results 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 Administration's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hinkle + Landers, PC  
Albuquerque, NM  
September 28, 2017

**STATE OF NEW MEXICO  
 WORKERS' COMPENSATION ADMINISTRATION  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For the Year Ended June 30, 2017**

**SUMMARY OF FINDINGS AND RESPONSES**

Current and prior year findings are as follows:

| <u>Reference #</u>  | <u>Findings</u> | <u>Status of Findings</u> | <u>Type of Finding*</u> |
|---------------------|-----------------|---------------------------|-------------------------|
| <b>PRIOR YEAR</b>   |                 |                           |                         |
| NONE                |                 |                           |                         |
| <b>CURRENT YEAR</b> |                 |                           |                         |
| NONE                |                 |                           |                         |

\* Legend for Type of Findings

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Other Matters Involving Internal Control Over Financial Reporting
- D. Non-compliance with State Audit Rule, NM State Statutes, NMAC or other entity compliance

**STATE OF NEW MEXICO  
WORKERS' COMPENSATION ADMINISTRATION  
EXIT CONFERENCE  
For the Year Ended June 30, 2017**

An exit conference was held in a closed session on September 28, 2017, at the Administration's Office. In attendance were the following:

Representing the Workers' Compensation Administration:

|                |  |
|----------------|--|
| Darin Childers | Director                               |
| Dana Chavez    | Executive Deputy Director - Operations |
| Staci Tullar   | Chief Financial Officer                |

Representing Hinkle + Landers, P.C.:

|                              |                                    |
|------------------------------|------------------------------------|
| Farley Vener, CPA, CFE, CGMA | President and Managing Shareholder |
| Katelyn Constantin           | Audit Manager                      |

**FINANCIAL STATEMENTS**

The financial statements of the Administration as of June 30, 2017, were substantially prepared by Hinkle + Landers, PC, however, the financial statements are the responsibility of management.