FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

NEW MEXICO RETIREE HEALTH CARE AUTHORITY

June 30, 2008

atkinson

PRECISE. PERSONAL. PROACTIVE

New Mexico Retiree
Health Care Authority

OFFICIAL ROSTER

June 30, 2008

Board of Directors

Alfredo Santistevan, Chairman	NM Municipal League
Tom Sullivan, Vice-Chairman	Superintendents Association of NM
Bruce Malott, Secretary	Governor's Appointee
Marilyn Brown	NEA, Classroom Teachers Association
Joe Montano	NM Association of Educational Retirees
James B. Lews/Orlando Romero/Mark Valdes	State Treasurer's Office
Michael D. Anaya	Santa Fe County Commissioner
Doug Crandall/Terry Slattery	Public Employees Retirement Association
Justin Najaka	Active State Employees
Jan Goodwin	Educational Retirement Board

Staff

Tomas Rodriguez	Acting Executive Director
Carmen Roybal, CPA	Fiscal Director

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Mr. Hector H. Balderas
New Mexico State Auditor
and
The Board of Directors
New Mexico Retiree Health Care Authority
Albuquerque and Santa Fe, New Mexico

We have audited the accompanying financial statements of the fiduciary activities of the New Mexico Retiree Health Care Authority (NMRHCA or Authority) (a component unit of the State of New Mexico) as of and for the year ended June 30, 2008 as listed in the table of contents. We have also audited the combining schedule of plan net assets and changes in net assets by function and the respective budgetary comparisons presented as supplementary information as of and for the year ended June 30, 2008 as listed in the table of contents. These financial statements and schedules are the responsibility of the New Mexico Retiree Health Care Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note A, the financial statements of the New Mexico Retiree Health Care Authority are intended to present the financial position and results of operations of only that portion of the fiduciary activities of the State of New Mexico that is attributable to the transactions of the New Mexico Retiree Health Care Authority. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2008, and the changes in financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary activities of the New Mexico Retiree Health Care Authority as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the functional activities of the NMRHCA as of June 30, 2008, the respective changes in financial position thereof and the respective budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note B 11, for fiscal year 2008, the NMRHCA adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions.*

In accordance with *Government Auditing Standards,* we have also issued our report dated April 6, 2009, on our consideration of the New Mexico Retiree Health Care Authority'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* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 8 and the Schedules of Funding Progress and Employer Contributions on pages 32-34 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Schedules of Funding Progress and Employer Contributions do not present at least three years of trend information as required by generally accepted accounting principles as only two actuarial evaluations based on GASB 43 requirements have been performed.

Our audit was performed for the purpose of forming opinions on the basic financial statements, the combining and individual fund statements, and budgetary comparisons presented as supplementary information of the New Mexico Retiree Health Care Authority taken as a whole. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
April 6, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

The New Mexico Retiree Health Care Authority (NMRHCA or Authority) offers the following narrative overview and analysis of the financial position of the Authority as of June 30, 2008 and the results of its operations for the year. Data as of June 30, 2008 has been provided for comparative purposes.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, was adopted by the Authority as of July 1, 2001. GASB Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, was adopted for the year ended June 30, 2007.

BASIC FINANCIAL STATEMENTS

GASB Statement No. 34 requires that the basic financial statements include both government-wide financial statements and fund statements. As discussed more thoroughly in Note A to the financial statements, the operations of the Authority are accounted for in a single private-purpose trust fund of the fiduciary type. As a result, only the financial statements required for fiduciary funds are presented. These statements do not differ greatly from those presented in prior years by the Authority except for changes to the classification of net assets (formerly referred to as fund balance).

The basic financial statements include a statement of plan net assets, which reports the Authority's assets, liabilities and plan net assets (equity), and a statement of changes in plan net assets. The statement of plan net assets is presented as of June 30, 2008, while the latter statement covers the year then ended.

In addition, the Audit Rule issued by the New Mexico State Auditor requires that comparisons of actual revenues and expenses to the related budgets be presented as a part of the basic financial statements.

GASB No. 43 sets requirements for Other Post Employment Benefit (OPEB) plans rather than pensions and is directly applicable to the Authority. Under GASB 43, the Authority is considered a cost sharing multi-employer arrangement that is equivalent to a trust and reports certain detailed information in its financial statements, presents certain required supplementary information to help users to assess changes to the funded status of the plan, and is required to make other disclosures. A single actuarial valuation covers all plan members and the Authority obtained its second actuarial valuation as of June 30, 2008. Actuarial valuations are required at least biannually.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (UNAUDITED)

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

CONDENSED COMPARATIVE FINANCIAL INFORMATION

The Authority's assets, liabilities and net assets can be summarized as follows as of June 30, 2008 and 2007 (please note that the Authority has no long-term liabilities):

	2008	2007
Cash and cash equivalents	$ 7,961,722	$ 20,396,826
Accounts receivable	7,731,315	7,911,723
Buy-in obligation receivable	2,046,044	1,292,927
Other current assets	918,380	2,341,440
Investments	170,737,080	176,828,506
Property and equipment, net	43,520	66,216
Total assets	$ 189,438,061	$ 208,837,638
Short-term investment overdraft	$ 5,689,426	$ -
Reserve for losses and loss adjustment	16,072,000	13,305,000
Unearned premium revenues	328,796	8,278,338
Other current liabilities	723,212	11,540,268
Total liabilities	22,813,434	33,123,606
Net assets:		
Invested in capital assets	43,520	66,216
Held for health care benefits	166,581,107	175,647,816
Total plan net assets	166,624,627	175,714,032
Total liabilities and plan net assets	$ 189,438,061	$ 208,837,638

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (UNAUDITED)

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

The Authority's revenues and expenses can be summarized as follows for the years ended June 30, 2008 and 2007 (as adjusted and reclassified).

	2008	2007
Contributions and other revenue	$ 177,999,147	$ 157,072,521
Investment (loss) income	(5,727,246)	28,815,989
Pension tax revenue	13,688,985	9,468,257
State appropriation	8,900	8,900
Total additions	185,969,786	195,365,667
All operating expenses relating to premiums and claims	195,059,191	174,239,711
Change in plan net assets	$ (9,089,405)	$ 21,125,956

The breakout of contributions from retirees, employers and employees was as follows:

	2008	2007
Retirees	$ 82,324,077	$ 72,485,097
Employer	50,233,688	44,671,048
Employees	25,135,687	22,342,720
Employer buy-ins	2,707,222	-
Employer buy-ins interest portion	160,297	4,204,146
	$ 160,560,971	$ 143,703,011

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Investments represent over 92.9% of total assets at June 30, 2008.

Operating revenues and expenses have both increased significantly over the last several years, although the growth in revenues has not kept pace with the growth in expenses. The majority of operating revenues are provided by contributions from retirees, employers and employees. These revenues are subject to annual increases as well as to increasing enrollment as more and more employees retire. The workforce is subject to the same aging pressures as is our nation's population at large. The majority of expenses represent premiums and claims paid by the Authority on behalf of its covered members.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (UNAUDITED)

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

The cost of such items has increased exponentially each year, particularly over the last decade, due to increases in healthcare providers' payroll, pharmaceutical, medical malpractice and technology expenses. These are ongoing pressures which are unlikely to abate.

In addition, the reserve for losses and loss adjustment expenses on the balance sheet increased (decreased) by $2,767,000 and ($438,490) for the years ended June 30, 2008 and 2007, respectively. This reserve, which allows for known as well as incurred but not reported Estimated Health IBNR claims for the Authority's self funded program, is actuarially determined; and the increases again reflect the exponential increases seen in healthcare expenditures. Although the increases are a non-cash item, they are reported in the statement of changes in plan net assets as an expense.

BUDGETARY ANALYSIS

	(In thousands) Actual	(In thousands) Budget	Positive (Negative) Variance
Budgetary basis revenues	$ 178,073	$ 184,559	$ (6,485)
Budgetary basis expenses	195,059	199,659	4,600
Budgetary basis transfers in	2,840	2,708	132
Budgetary basis transfers out	(2,840)	(2,708)	(132)
Excess (deficiency) of revenues over expenses	$ (16,986)	$ (15,100)	$ 1,886

The major differences between the GAAP basis revenues and expenses relate to the change in the reserve for losses and loss adjustment expenses described above and to unrealized losses on investments. The largest individual budget variance in revenues relates to investment income, which has reported significant increases for the last two years. The largest individual budget variance in expenses relates to contract services since the utilization of purchased services, which includes payments for premiums and claims, was well less than projected.

CAPITAL ASSET ACTIVITY

The Authority had a minimal amount of asset additions for fiscal year 2008--$6,869. Capital assets consist mainly of furniture, computers and other office equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (UNAUDITED)

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

The Authority continues to face a myriad of challenges including aforementioned increases in medical costs and declining revenues. Additionally, the NMRHCA's long-term investments have experienced the same significant market losses as New Mexico's other public funds. While the Board of Directors (Board) of the NMRHCA took important steps in 2008 to improve the overall financial condition of the fund, as well as the administrative functions of the Authority, the long-term challenge of offering an affordable, comprehensive retiree health care benefit for New Mexico's retired public employees remains daunting.

In 2008, the Board approved increases in the cost to retirees for their health plans that averaged 25%. These increases were part of a comprehensive solvency plan adopted by the Board that was intended to improve the Authority's solvency outlook, which had recently been calculated to extend only to 2014. Some retirees, particularly those on the richer, non Medicare plans saw their cost increase by as much as 80%. The increases, as noted, were part of a solvency plan that resulted from recommendations made by a joint Legislative/Executive work group. The changes to premiums and contributions extended the solvency of NMRHCA's fund to approximately 2019, however, accelerated declines in revenues due to a prolonged downturn in the economy and further erosion of the Authority's investment funds could result in a shorter than expected solvency period.

The other key component of the Board's solvency plan, includes a requested increase in the employer/employee contribution. That contribution has been increased only once in the 19-year history of the Authority and represents a smaller and smaller percentage of revenue vs. costs each year. In FY05 employer/employee contributions equaled 46% of total expenses. That has declined to 36% in FY10 and is expected to be as low as 18% in FY19, absent and increase to the contribution. It will become increasingly difficult for the Authority to balance revenue and expenditures if one of its two largest sources of revenue remains stagnant or declining. Retirees will not be able to shoulder the entire burden for maintaining the long-term financial stability of the NMRHCA. If the Board's solvency plan is enacted, including a proposed increase to the employer/employee contribution, the Authority anticipates solvency until approximately 2027.

The Authority secured the second actuarial valuation in connection with its GASB 43 implementation. The valuation reported an improvement in the State's unfunded accrued actuarial liability of approximately $1.1 billion and a decrease in the annual required contribution of approximately $100 million. While both are marked improvements from the first GASB valuation, the underfunding issue will be an ongoing concern for the Authority and the State of New Mexico well into the future.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (UNAUDITED)

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

The Authority did make strides in improving the administration of the Authority including filing key positions such as Executive Director, Deputy Director, Human Resource Director and Operations Manager, which had been vacant for extended periods of time in 2007 and 2008. These and other staff will allow the Authority to undertake a review of plan design and structure, as well as review existing contractual arrangements as part of a comprehensive strategy to ensure the viability of the Authority and the benefit it offers to more than 42,000 covered lives. Additional emphasis has been placed on enhancing the financial management functions of the Authority.

Further information may be obtained from the New Mexico Retiree Health Care Authority at 4308 Carlisle, NE, Suite 104, Albuquerque, New Mexico 87107.

EXHIBIT 1

New Mexico Retiree Health Care Authority

STATEMENT OF PLAN NET ASSETS

June 30, 2008

ASSETS

Short-term investments with State Treasurer	$ 7,961,722
Receivables	
Accounts receivable - employers, employees and participants	7,731,315
Buy-in obligation receivable	2,046,044
Pension tax receivable	883,704
Interest receivable	34,676
Total receivables	10,695,739
Long-term investments with State Investment Council	
Fixed income core bonds	54,039,939
Non US equities	34,258,914
Large cap - active	33,337,848
Large cap index	32,093,973
Mid/small cap	8,591,721
Emerging markets	8,414,685
Total investments	170,737,080
Capital assets	
Furniture and equipment	671,483
Less accumulated depreciation	(627,963)
Total capital assets	43,520
Total assets	$ 189,438,061

LIABILITIES

Short-term investment overdraft with State Treasurer	$ 5,689,426
Accounts payable	557,328
Due to State General Fund	14,978
Due to other governments	29,003
Payroll liabilities	51,324
Compensated absences	70,579
Deferred revenue	328,796
Reserve for loss and loss adjustment expense	16,072,000
Total liabilities	22,813,434
Commitments and contingencies	-
Invested in capital assets	43,520
Plan net assets held in trust for other post employment benefits, restricted	166,581,107
Total liabilities and plan net assets	$ 189,438,061

The accompanying notes are an integral part of this financial statement.

New Mexico Retiree Health Care Authority

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the year ended June 30, 2008

ADDITIONS	
Contributions	
Retirees	$ 82,324,077
Employer	50,233,688
Employees	25,135,687
Employer buy-ins	2,707,222
Employer buy-ins interest portion	160,297
Total contributions	160,560,971
Investment earnings	
Net (decrease) in fair value of investments	(6,091,426)
Interest on short-term investments with state treasurer	364,180
Total net investment decrease	(5,727,246)
Other additions	
Pension tax revenue	13,688,985
Medicare part D	8,079,099
Refunds and miscellaneous	92,014
Rebates	9,119,223
Subrogation reimbursements	147,840
State general fund appropriation	8,900
Total other additions	31,136,061
Total additions	185,969,786
DEDUCTIONS (ADDITIONS)	
Premiums and claims	189,710,763
Losses and loss adjustment expenses	2,767,000
General and administrative expenses	2,551,863
Depreciation expense	29,565
Total deductions	195,059,191
Change in plan net assets	(9,089,405)
Plan net assets, beginning of year	175,714,032
Plan net assets, end of year	$ 166,624,627

The accompanying notes are an integral part of this financial statement.

NOTE A – FINANCIAL REPORTING ENTITY

The New Mexico Retiree Health Care Authority (Authority or NMRHCA) was formed February 13, 1990 under the New Mexico Retiree Health Care Act (Act) of New Mexico Statutes Annotated (NMSA 1978), as amended, to administer the retiree health care fund (10-7C-1-19 NMSA 1978) which was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico. The New Mexico Retiree Health Care Act created a governing board composed of 11 members (a twelfth member was added through an amendment). The membership composition is as follows:

1. One member who is not employed by or on behalf of, or contracting with, an employer participating in or eligible to participate in the Retiree Health Care Act (10-7C-1 to 10-7C-19 NMSA 1978), and who shall be appointed by the Governor to serve at the pleasure of the Governor;

2. The education retirement director or the education retirement director's designee;

3. One member to be selected by the Public School Superintendent's Association of New Mexico;

4. One member who shall be a teacher who is certified and teaching in elementary or secondary education to be selected by a committee composed of one person designated by the New Mexico Association of Classroom Teachers, one person designated by the National Education Association of New Mexico and one person designated by the New Mexico Federation of Teachers;

5. One member who shall be an eligible retiree of a public school and who shall be selected by the New Mexico Association of Retired Educators;

6. One member who shall be an eligible retiree of an institution of higher education participating in the Retiree Health Care Act and who shall be selected by the New Mexico Association of Retired Educators (the institutions of higher education do not currently have the requisite number of participants for board representation);

7. The executive secretary of the Public Employees' Retirement Association or the executive secretary's designee;

8. One member who shall be an eligible state government retiree and who shall be selected by the Retired Public Employees of New Mexico;

9. One member who shall be an elected official or employee of a municipality participating in the Retiree Health Care Act to be selected by the New Mexico Municipal League;

NOTE A – FINANCIAL REPORTING ENTITY – CONTINUED

10. One member who shall be an elected official or employee of a county participating in the Retiree Health Care Act to be selected by the New Mexico Association of Counties. In March 2005, the Association proved it has the requisite number and a seat on the board was granted;

11. The State Treasurer or the State Treasurer's designee; and

12. One member who shall be a classified state employee selected by the personnel board in response to statutory amendment.

Every member of the board shall serve at the pleasure of the party or parties that selected that member. The board shall elect from its membership a president, vice president and secretary.

The board may appoint such officers to an advisory committee, as it deems necessary. The board may enter into contracts or arrangements with consultants, professional persons or firms as may be necessary to carry out the provisions of the Retiree Health Care Act.

Other legal duties of the board are defined by Section 10-7C-7 of the New Mexico Retiree Health Care Act.

Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* establishes the standards for defining and reporting on the financial entity. GASB 14 defines the financial reporting entity as consisting of the primary government, organization 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. A primary government is any state government or general-purpose local governments, consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The NMRHCA, therefore, is part of the primary government of the State of New Mexico, and its financial data should be included with the financial data of the State. The NMRHCA does not follow any pronouncements issued by the Financial Accounting Standards Board after November 30, 1989.

Because the NMRHCA is a self-funded mainly self-insured entity pursuant to Section 10-7C, NMSA 1978, the NMRHCA is not construed to be transacting insurance activity otherwise subject to the laws of the State of New Mexico that regulate insurance companies and therefore not subject to minimum statutory reserve requirements. The selection of the type of coverage by the individual retirees does affect the NMRHCA self-insurance liability. The NMRHCA operations can also be affected by legislation.

NOTE A – FINANCIAL REPORTING ENTITY – CONTINUED

Employer and employee contributions to NMRHCA total 1.95% of each participating employee's salary as required by 10-7C-15 NMSA 1978. The contributions are set by legislation and are not based on an actuarial calculation. The legislature periodically reviews the contribution rates pursuant to 10-7C-15 NMSA 1978. All employer and employee contributions are not refundable under any circumstance, including termination of the employer's participation in the NMRHCA.

Current retirees are presently required to make monthly contributions for individual basic health coverage. Retiree premium contribution increases are limited by the Act to a maximum of 9% per year until fiscal year 2008 after which the Authority's health care trend will be the basis for any rate increases for the New Mexico basic plan of benefits. The Board may designate other plans as "optional coverages." Optional and/or voluntary coverages are not subject to the 9% cap to expire fiscal year 2008. See section 10-7C-13.

The Authority has no component units.

NOTE B – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting

The NMRHCA uses the accrual basis of accounting required by GASB 43. The economic resource measurement focus is used for all assets (both financial and capital), liabilities, revenues, expenses, gains and losses. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recorded at the time liabilities are incurred. Employer contributions to the Authority are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

2. Program Revenue

Program revenue shown on the accompanying statement of changes in plan net assets consists primarily of contributions received from retirees, employers and employees including amounts received and accrued from employer buy-ins. Operating revenue is distinguished from non-operating revenue by considering the core purpose of the NMRHCA to provide comprehensive group health insurance. As a result, contributions received from participants are considered operating revenues.

NOTE B – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Short-Term Investments – State Treasurer

Short-term investments with State Treasurer include the NMRHCA's pro rata share of liquid investments pool held by the New Mexico State Treasurer. Deposits with the State Treasurer are required to be collateralized at a minimum level of fifty percent. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits and the market value of purchased investments. Cash in bank accounts are insured up to $100,000 per account. The only checking account is a zero balance lock box depository at the State Fiscal Agent and monies are transferred daily to the State Treasurer.

4. Property and Equipment

Acquisitions of property and equipment and improvements and replacements of equipment with an initial individual cost of at least $5,000 beginning in 2006 (per Section 12-6-10 NMSA 1978) and subsequent, and $1,000 for years prior to 2006 and an estimated useful life in excess of one year are capitalized at cost. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets. The useful lives are ten years for furniture and office equipment and five years for computer equipment.

5. Income Taxes

In management's opinion, the NMRHCA provides an essential governmental function to its participants as described in Section 115 of the Internal Revenue Code and therefore considers the organization exempt from federal income taxes pursuant to the Code.

6. Budgetary Process and Budgetary Basis of Accounting

An operating budget is submitted annually for approval to the budget division of the Department of Finance and Administration and reviewed by the Legislative Finance Committee, State of New Mexico. The Authority submits three budgets reflecting the benefit, administration and discount prescription drug program funds. The legal level of budgetary control is at the functional level. Budget amendments must be reviewed by the Department of Finance and Administration. Administrative line item expenditures may legally exceed amounts budgeted; however, the total budget category expenditures may not legally exceed approved budget category amounts. Four BARs were filed during 2008 increasing expected expenditures for related budgetary categories.

The financial statements of the NMRHCA are based on the full accrual method. The budgetary basis of accounting has been conformed to the financial statement basis beginning in 2005, except for depreciation which is not budgeted. Previously, the NMRHCA utilized budgetary basis methods that were identified in prior financial statements as non-GAAP methods.

NOTE B – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Accounts Receivable, Buy-Ins and Deferred Revenue

Accounts receivable derived from employers and participants consist of amounts due from employers for contributions relating to payrolls paid prior to June 30, 2008 and amounts due from retirees for monthly premiums. Deferred revenues consist of advance premiums paid by retirees prior months of coverage.

Qualified employers previously declining participation in the healthcare program may elect to buy-in under 10-7C-1 NMSA 1978. Upon meeting requirements and approvals, the organization will pay a determined amount to compensate the Authority and other participants for prior period's nonparticipation. Payments can be lump sum or on the installment method for up to 13 years and are in addition to regular monthly contributions.

8. Restricted Plan Net Assets

Net assets and State of New Mexico pension tax revenue are restricted to provide for payment of claims and premiums in future years and to continue to provide health benefits to eligible retirees. All fiduciary funds revenue, including pension tax, is held in trust for qualified retirees. These funds are not available to the State of New Mexico for appropriation for other purposes. The restrictions on the net assets are deemed to be legally enforceable under GASB standards. When restricted and unrestricted resources are available for the same purpose, it is the policy of the NMRHCA to first apply the unrestricted resources.

9. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the actuarial evaluations of value of reported amounts and the probability of occurrence of future events. These estimates are subject to continually change.

10. OPEB Actuarial Valuation

The Authority's OPEB program actuarial valuation was conducted by the Segal Company, Phoenix, Arizona, as of June 30, 2008. The valuation was performed in accordance with GASB Statement No. 43 and 45 requirements at the request of the Authority. The valuation is conducted every two years.

NOTE B – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. New Accounting Standards affecting NMRHCA

The Government Accounting Standards Board (GASB) has issued Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans* and Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. GASB No. 43 requires uniform reporting standards for Other Post Retirement Employee Benefits (OPEB) plans and is applicable to stand alone financial reports of OPEB plans established as trusts when issued by public employee retirement systems. NMRHCA implemented GASB 43 for the year ended June 30, 2007. See Note C for ongoing GASB 43 disclosures.

Statement 45 requires accrual accounting for employers for retiree welfare benefits, principally healthcare. The NMRHA has adopted GASB-45 during the year and has implemented it under the multi-employer cost sharing plan conditions.

Participating employers, including the NMRHCA, upon their implementation of the related GASB Statement No. 45, are required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made. Requirements to disclose the funded status and funding progress of the employer's plan and actuarial methods and assumptions used can be satisfied by referencing the Authority's financial statements each year.

NOTE C – GASB NO. 43 IMPLEMENTATION

The Government Accounting Standards Board (GASB) has issued Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*. GASB 43 requires uniform reporting standards for Post Retirement Employee Benefits (OPEB) plans, and is applicable to the Authority who administers the Retiree Health Care Act for participating public employees and employers for the State of New Mexico and issues plan financial statements thereon.

NOTE C – GASB NO. 43 IMPLEMENTATION – CONTINUED

The legislation establishing the New Mexico Retiree Health Care Authority specifically did not intend to create formal trust relationships among the participating employees, retirees, employers and the Authority administering the Retiree Health Care Act Section 10-7C-1 through 19 NMSA 1978. However, the substantive plan created by the Act contains all requisite elements to be considered as the equivalent of a trust arrangement. These elements include irrevocable contributions to the plan, plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and plan assets are legally protected from creditors of employers or the plan administrator. Additionally, there is no provision for any participating government entity to withdraw membership and all risks and costs including benefit costs are shared and are not attributed individually to employer, and a single contribution rate applies to employers. The Authority received a legal opinion that the manner of legal organization of the Authority is substantially equivalent to a trust. As such, this requires the Authority to apply GASB 43 as a multi-employer cost sharing plan. The net assets of the Authority are reported as restricted per GASB 46 and 10-7-C-14 NMSA 1978.

As a multi-employer cost sharing plan, the Authority presents two required financial statements and two schedules of historical trend information. The financial statements generally are the same as the fiduciary fund (private purpose/trust) financial statements previously issued. There are requirements for frequency and timing of actuarial valuations as well as actuarial methods and assumptions that are acceptable for financial reporting. It will obtain actuarial valuations at least biannually and a single actuarial valuation covers all plan members. The Authority will make various disclosures including the schedules of funding progress and required employer contributions presented as required supplementary information. These financial statements contain required disclosures and schedules except that the schedules of funding progress and employer contributions are based on two years of actuarial valuations rather than 3 years as specified in GASB 43.

Plan membership:	June 30, 2008	June 30, 2006
Current retirees and surviving spouses	$ 27,928	$ 24,815
Inactive and eligible for deferred benefit	7,853	-
Current active members	94,600	115,477
	$ 130,381	$ 140,292
Active membership:		
State general	$ 19,772	$ 23,423
State police and corrections	1,765	2,256
Municipal general	20,348	22,538
Municipal police	3,214	3,506
Municipal FTRE	1,814	1,915
ERB	47,687	61,839
	$ 94,600	$ 115,477

NOTE C – GASB NO. 43 IMPLEMENTATION – CONTINUED

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
June 30, 2006	$ 154,538,668	$ 4,264,180,967	$ 4,109,642,299	3.62%	$ 4,073,731,873	101%
June 30, 2008	170,626,271	3,116,915,900	2,946,289,629	5.47%	4,020,508,902	76%

Valuation date June 30, 2008

Actuarial cost method Entry age normal, level percent of pay

Amortization method 30-year open-ended amortization, with the initial payment determined as if future payments would theoretically increase each year on a level percent of pay basis

Remaining amortization period 30 years as of June 30, 2008

Asset valuation method The actuarial value of assets is the market value of assets

Actuarial assumptions:

Discount rate 5.00%

Projected payroll increases 4.00%

Health care cost trend rate:

Prescription Drug & Medical

(under age 65, age 65 and over) 8% from July 1, 2009 to July 1, 2016, decreasing by 0.5% for each year until it reaches an unlimited rate of 5%

In the transition year and until three actuarial valuations have been performed in accordance with the parameters, the required schedules of funding progress and employer contributions should include information for as many valuations as are available. Accordingly two evaluations are included at June 30, 2008.

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Plan Year Beginning	Annual Required Contributions	Actual Contributions Employers and Employees	Percentage Contributed
July 1, 2006	$ 392,591,254	$ 82,703,326	21.1%
July 1, 2007	275,517,523	94,059,722	34.1%
July 1, 2008	286,538,244	Not yet completed	N/A

NOTE C – GASB NO. 43 IMPLEMENTATION – CONTINUED

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of findings progress, presented as required supplementary information following the notes to the financial statements, will present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC), an amount that will be actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years using an open ended amortization.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits does not incorporate potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The following changes in assumptions were made:

This report was revised to incorporate an updated discount rate, to include an administrative expense assumption, to update the assumed age of actives missing dates of birth and to include plan assets.

Inactive vested members are now valued explicitly.

Our methodology for projecting retiree contributions was revised to more accurately model NMRHCA policy.

The spouse coverage for females was updated.

NOTE D – ACCRUED VACATION AND SICK LEAVE

Accumulated vacation, compensating time and sick leave earned and not taken are recorded as an expense in the current year in accordance with GASB Statement No. 16. Vacation earned and not taken is cumulative; however, upon termination, vacation is limited to 240 hours (30 days). Sick pay accumulated in excess of 600 hours, not to exceed 120 hours, is payable semiannually to qualified employees at a rate equal to 50% of the employee's hourly wage. The total vacation and sick leave accrual at June 30, 2008 was $70,579.

Balance as of June 30, 2007	Additions	Deletions	Balance as of June 30, 2008	Amount Due Within One Year
$ 54,240	$ 82,073	$ 65,734	$ 70,579	$ 70,579

NOTE E – PROPERTY AND EQUIPMENT

A summary of furniture and equipment at June 30, 2008 is as follows:

CAPITAL ASSETS ROLLFORWARD

Description	Adjusted Balance at 6/30/2007	Additions	Deletions	Balance at 6/30/2008
Capital assets - furniture and equipment	$ 664,614	$ 6,869	$ -	$ 671,483

ACCUMULATED DEPRECIATION ROLLFORWARD

Description	Adjusted Balance at 6/30/2007	Additions	Deletions	Balance at 6/30/2008
Accumulated depreciation	$ (598,398)	$ (29,565)	$ -	$ (627,963)

Depreciation expense was $29,565 for the year ended June 30, 2008. All depreciation was allocated to the administrative function.

NOTE F – PERA RETIREMENT PLAN

1. Plan Description

Substantially all of NMRHCA's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees' Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries.

PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, New Mexico 87504-2123. That report is also available at www.pera.state.nm.us.

2. Funding Policy

Plan members are required to contribute 7.42% (range from 4.0% to 16.3% depending upon the plan, i.e., state general, state hazardous duty, state police, municipal general, municipal police, municipal fire) of their gross pay. The NMRHCA is required to contribute 16.59% (range from 7.0% to 25.72% depending upon the plan) of gross covered salary.

The contribution requirements of plan members and the NMRHCA are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the Legislature. The NMRHCA contribution to PERA for the years ended June 30, 2008, 2007 and 2006 was $143,639, $148,137, and $118,088 respectively, equal to the amount of the required contributions for each fiscal year.

NOTE G – RETIREE HEALTH CARE ACT PLAN

The NMRHCA plan is a multi-employer defined benefit health care plan established under the Retiree Health Care Act (10-7C-1 to 10-7C-19, NMSA 1978).

Administrative Fund (38000): Created by State Statute 10-7C-16 NMSA 1978. The purpose of this fund is to provide administrative support to carry out the purpose of the Benefit Fund and the Retiree Health Care Act. This fund is not financed by the general fund, it is financed and reverts to the Benefit Fund share 38100.

Benefit Fund (38100): Created by the Retiree Health Care Act (10-7C-1 to 10-7C-19 NMSA 1978). The purpose of this fund is to provide core group and optional healthcare and life insurance benefits for current and future retirees and their dependents. See below for further explanation of the Retiree Health Care Act.

NOTE G – RETIREE HEALTH CARE ACT PLAN – CONTINUED

Discount Prescription Drug Program (81000): Created by State Statute 10-7C-17 NMSA 1978. The purpose of this fund is to administer the discount prescription drug program. The purpose of the discount prescription drug program is to reduce the cost of prescription drugs for covered participants. This is a nonreverting fund.

The Act provides comprehensive core group health insurance for persons who have retired from public service in New Mexico. The purpose is to provide eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or out-of-pocket payments of eligible retirees. Employees of the NMRHCA participate in the plan.

The post-employment benefit accrual basis revenues and expenses relating to the approximately 27,928 retirees participating in the plan for the year ended June 30, 2008 consisted of:

Retiree/employer/employee contributions	$ 160,400,674
Premiums and claims	(189,710,763)
Net cash expenditures	$ (29,310,089)

Further information may be obtained from the New Mexico Retiree Health Care Authority at 4308 Carlisle, NE, Suite 104, Albuquerque, New Mexico 87107.

NOTE H – POST–EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description. The New Mexico Retiree Health Care Authority, as an employer, contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (NMRHCA). The NMRHCA provides healthcare insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The NMRHCA 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.

NOTE H – POST–EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN – CONTINUED

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

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

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the NMRHCA 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 NMRHCA 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 NMRHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary.

NOTE I – RESERVE FOR LOSSES AND LOSS ADJUSTMENTS

The amount shown on the accompanying statement of plan net assets as reserve for losses and loss adjustment expenses is an actuarially calculated estimate of the ultimate costs of settling all incurred but not reported claims as of June 30, 2008, while the amount shown on the accompanying statement of changes in plan net assets as losses and loss adjustment expenses represents the change in this estimate during the year ended June 30, 2008. These reserves represent, in management's opinion, the best estimate of the ultimate cost of settling all reported and unreported claims. There exists a range of variability around the best estimate of the ultimate cost of settling all unpaid claims. Accordingly, the amount reflected in the accompanying financial statements may not ultimately be the actual cost of settling all unpaid claims and the difference may be significant.

NOTE J – JOINT POWERS AGREEMENTS

The NMRHCA has entered into 2 joint powers agreements:

1. An agreement exists between the NMRHCA and the New Mexico State Investment Council (NMSIC) in order to establish a relationship between the NMRHCA and the NMSIC. Under this agreement, the NMSIC will act as the investment manager of the Retiree Health Care Fund for the NMRHCA and will invest the NMRHCA's long-term reserves and provide services in accordance with the guidelines provided in the NMRHCA investment policy. The agreement was effective June 25, 1992, and continues in force until terminated by either party upon 30 days written notice to the other party.

   The funds under management shall be invested by the NMSIC in accordance with the provision of NMSA 1978, Sections 6-8-1 through 6-8-16. Fees charged for investment services are netted from investment income provided the NMRHCA on a monthly basis.

   The NMRHCA policy determines the amount to invest with NMSIC. The NMRHCA will maintain ownership of all securities and cash balances on deposit in the NMRHCA's accounts at the New Mexico State Treasurer's Office, the fiscal agent bank and the custodial bank. The NMRHCA is responsible for all audits performed relating to its financial records, including all investment transactions.

2. An agreement exists among the NMRHCA, New Mexico Public Schools Insurance Authority, Albuquerque Public Schools, and the State's Risk Management Division of the General Services Department (collectively, the Interagency Benefits Advisory Committee). The purpose is to authorize the parties to exercise their common powers to provide and administer health care insurance programs, and to implement the purposes of the Health Care Purchasing Act. Each agency acts as its own fiscal agent for cost purposes. The agreement was effective March 15, 1999, and continues in force until terminated by any party upon 90 days written notice to the other parties.

NOTE K – INVESTMENTS

The New Mexico Retiree Health Care Authority (NMRHCA) maintains a joint powers agreement with the New Mexico State Investment Council (NMSIC) to provide investment services in accordance with guidelines, listed in the NMRHCA's Investment Policy. The NMRHCA monies are invested in accordance with the NMSA Section 6-8-9. NMSIC issues a separate, publicly available financial report that includes financial statements and required supplementary information. Investment fees charged to the Authority totaled $305,790 for the year ended June 30, 2008.

The NMRHCA follows the Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* which establishes fair value standards for certain investments held by governmental entities and external investment pools.

Investments are stated at fair value, which is based upon the NMRHCA's share of NMSIC's pooled investments which are stated at fair value based upon quoted market prices plus accrued interest and dividends. Information relating the NMSIC's use of derivatives is not made available to the NMRHCA. The NMRHCA's investments were divided into pooled investments as follows at June 30, 2008.

	Fair Value	Units
Fixed income core bonds	$ 54,039,939	26,274
Non US equities	34,258,914	24,228
Large cap - active	33,337,848	14,749
Large cap index	32,093,973	21,952
Mid/small cap	8,591,721	4,501
Emerging markets	8,414,685	1,743
Total	$ 170,737,080	

The equity funds invest in United States and foreign corporate stocks. The fixed income fund invests in U.S. Treasury notes and bonds, bonds of other government agencies and corporate bonds. The calculation of the net loss in the fair value of investments is as follows for the year ended June 30, 2008:

Fair value as of June 30, 2007	$ 176,828,506
Add: Net market decreases during fiscal year 2008	(6,091,426)
Less: Withdrawals	-
Fair value as of June 30, 2008	$ 170,737,080

NOTE K – INVESTMENTS - CONTINUED

The Authority has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements*. However, it has no cash accounts except for a lock box arrangement for which deposits are transferred daily to the State Treasurer.

NOTE L – INVESTMENTS, STATE TREASURER

Investments of the Authority consist of its interest in the State Treasurer General Fund Investment Pool, which is managed by the New Mexico State Treasurer. The fair value of the investments maintained at the New Mexico State Treasurer's Office at June 30, 2008 is as follows:

Fund	SHARE Fund No.	Fair Value June 30, 2008
Benefits Fund - Overdraft	38100	$ (5,689,426)
Administrative Fund	38000	7,936,774
Discount Prescription Fund	81000	24,948
	Total	$ 2,272,296

For additional GASB 40 disclosure information related to the above investment pool, the reader should refer to the separate audit report of the New Mexico State Treasurer for the fiscal year ended June 30, 2008.

NOTE M – PENSION TAX REVENUE AND PENSION TAX RECEIVABLE

Revenue is transferred from the New Mexico Taxation and Revenue Department in accordance with NMSA 1978, Section 7-1-6.30.

Transfers from the NM Taxation and Revenue Suspense Fund are based on an amount of $3,000,000 per year with a 12% per annum increase beginning July 1, 2002. Monies are transferred on the month following the due month and any amount due the NMRHCA that is not received by June 30 is accrued. All amounts accrued are received by the NMRHCA after year-end. For the year ended June 30, 2008, the total revenue was $13,688,985.

NOTE N – OPTIONAL COVERAGES

Beginning September 1, 1993, the NMRHCA offered eligible retirees voluntary coverages: two dental plans, a vision plan, and supplemental life. Long-term care plans were in effect for 2008 but are discontinued for 2009. The plans are a pay-all basis by the retiree, whereby the retiree pays monthly for the entire premium for any optional coverages opted for and the NMRHCA in turn pays the optional plan provider the monies collected from the retiree. There is an additional fifty-cent administration fee included in the optional premium amount to cover collection and eligibility reporting costs to the NMRHCA. Therefore, the revenue generated through the collection of optional premium dollars by the NMRHCA is a direct dollar-for-dollar pass through to the providers of optional coverages. Revenues are recorded as retiree contributions and expenses are recorded as premiums in the financial statements. Medicare+Choice medical plans are offered to retirees on a voluntary basis.

NOTE O – COMMITMENTS AND CONTINGENCIES

1. Legal Proceedings

The NMRHCA is subject to various legal proceedings, claims and liabilities that arise in the ordinary course of the operations including personnel matters. In the opinion of the NMRHCA management and legal counsel, the ultimate resolution of the above matters will not have material adverse impact on the financial position or results of operations of the NMRHCA.

2. Risk Management

The NMRHCA is exposed to various risks of loss for which the NMRHCA carries insurance (Auto; Employee Fidelity Bond; General Liability; Civil Rights and Foreign Jurisdiction; Money and Securities; Property; and Workers' Compensation) with the State of New Mexico Risk Management Division. No claims have exceeded insurance coverage for each of the last three years.

NOTE O – COMMITMENTS AND CONTINGENCIES – CONTINUED

3. Lease Agreements

The NMRHCA's main office leases its building at 4308 Carlisle NE in Albuquerque. The space on Carlisle is leased for a 5-year period ending November 2010. The lease had a 5-year renewal option. In Santa Fe, the Authority leases an office building at 810 S. Mateo. The lease term is 5 years ending September 30, 2010. The Authority also leases storage space. All leases are operating leases. The 4-year lease commitment under these leases is as follows:

Years ending June 30,		
2009	$	106,913
2010		108,095
2011		34,964
2012		-
	$	249,972

Total lease expense for 2008 is $116,068.

4. Non-Covered Entities

During May 2006, the NMRHCA staff and counsel discovered that a certain covered entity may not have statutory basis for membership in the NMRHCA and therefore its inclusion could be not lawful. Additionally, there may be two more covered entitles not lawfully participating. This contingency existed at June 30, 2008 and the financial statements do not reflect any changes that may result from this issue.

NOTE P – OPERATING TRANSFERS

The following operating transfers occurred between the NMRHCA functional activities during the year ended June 30, 2008:

Share #	Benefits 38100 From (To)	Administration 38000 From (To)
Total appropriations	$ 2,778,000	$ (2,778,000)
Additional transfer amount per OPBUD 3	61,800	(61,800)
Budget adjustment	100,000	(100,000)
Reversion	(231,832)	231,832
	$ 2,707,968	$ (2,707,968)

The purpose of the transfers was to fund appropriations, to revert unused appropriations between funds, and was made on a routine basis.

NOTE Q – APPROPRIATIONS, BUDGET ADJUSTMENTS AND REVERSIONS

The NMRHCA submits annually for approval an Administrative Budget Request, as part of the operating budget. The Department of Finance and the Legislative Finance Committee (LFC) reviews the request and the LFC takes action to approve and/or amend the Authority administrative request. Appropriated amounts are then transferred into the Administrative Fund from the Benefits Funds. An annual State General Fund Appropriation is typically awarded to the Discount Prescription Drug Program Fund as well. Unused appropriations from the Benefits Fund to the Administration Fund, if any, revert back to the Benefits Fund, but unused appropriations from the State General Fund to the Discount Prescription Drug Program Fund do not revert back to the State General Fund per 10-7C-18 NMSA 1978.

The NMRHCA received a $2,778,000 appropriation from the Benefits Fund to the Administration Fund for fiscal year 2008 (Laws 2007, Chapter 33, Section 4). $231,832 is accrued for reversion for fiscal 2008 to the Benefits Fund. A $8,900 State General Fund appropriation was made to the Discount Prescription Drug Program for fiscal year 2008 (Laws 2007, Chapter 33, Section 4). This appropriated amount was to aid in the administration of the discount prescription drug card program aimed at reducing prescription drug expenditures for covered participants. The Discount Prescription Drug Program was required to revert back to the State General Fund $14,978 for all years prior to 2007. This has been recorded as a Due To General Fund at June 30, 2007 which not reverted during fiscal year 2008. The Discount Prescription Drug Card program is no longer a reverting fund in 2007. The appropriation and the reversion are recorded as operating transfers – see note P.

NOTE R – ACCOUNTS RECEIVABLE

The Authority receives contributions monthly from employers who remit the employer portion and the employee portion withheld from employees. Contributions are statutory, based on the number of employees reported by each employer for the month. Because the number of employees can change in any month, the Authority does not bill employers. The Authority depends on monthly reporting and contributions from employers. There is no allowance for uncollectible receivables recorded at June 30, 2008, as management deems any uncollectible amounts as immaterial.

NOTE S – BUY-IN OBLIGATION RECEIVABLE

As of June 30, 2008, Buy-in receivables include the following:

City of Rio Rancho	$	905,524
City of Roswell		337,801
City of Espanola		261,618
County of Lincoln		225,586
City of Bloomfield		133,276
City of Portales		101,961
City of Aztec		68,410
T or C Housing Authority		7,412
Village of Melrose		4,456
	$	2,046,044

These obligations are receivable monthly over 13 years at 7.5% interest. The current and long-term portions are as follow:

Current portion	$	248,854
Long-term		1,797,190
	$	2,046,044

NOTE T – LEGALLY REQUIRED RESERVES

There is no stated monetary reserve requirement. Under Section 10-7C-8, the Board of the Authority is charged with determining what is to make up the long-term reserves. Those long-term reserves are to be placed in investment activities under the provisions of Section 6-8-1 through 6-8-16 NMSA 1978.

NOTE U – SUBSEQUENT EVENTS

During the latter part of continuing into 2008, significant declines in fair value occurred in worldwide securities markets. Fair value estimates for securities are currently volatile, difficult to predict, and subject to material changes that could affect the NMRHCA's financial condition and results of operation in the future.

The Authority's long-term investments at fair value held with the State Investment Council were valued at $122,897,300 at February 28, 2009, a decrease of 28% since June 30, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

June 30, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
June 30, 2006	$ 154,538,668	$ 4,264,180,967	$ 4,109,642,299	3.62%	$ 4,073,731,873	101%
June 30, 2008	170,626,271	3,116,915,900	2,946,289,629	5.47%	4,020,508,902	76%

Valuation date June 30, 2008

Actuarial cost method Entry age normal, level percent of pay

Amortization method 30-year open-ended amortization, with the initial payment determined as if future payments would theoretically increase each year on a level percent of pay basis

Remaining amortization period 30 years as of June 30, 2008

Asset valuation method The actuarial value of assets is the market value of assets

Actuarial assumptions:

Discount rate 5.00%

Projected payroll increases 4.00%

Health care cost trend rate:

Prescription Drug & Medical
(under age 65, age 65 and over) 8% from July 1, 2009 to July 1, 2016, decreasing by 0.5% for each year until it reaches an unlimited rate of 5%

FACTORS AFFECTING AMOUNTS AND TRENDS REPORTED

Two actuarial studies based on GASB 43 requirements have been completed and decreases are reported for the year ended June 30, 2008 in the UAAL and ARC. Factors in these reported decreases are as follows:

1. **Changes in Composition of Active Membership** – The number of active members reported decreased due to refinement of data received from PERA and ERB reporting databases. More complete information on dates of birth was available for the second actuarial study.

2. **Changes Due to Retiree Self Pay Rates** – The retiree self pay rates were increased during the year which affected total retirees entering the plan to receive benefits and the level of coverage they chose.

3. **Change to Medicare Direct PDP Plan** – This allowed projection of Medicare Part D amounts coming into the plan for GASB reporting purposes for all projection years. Previously, Medicare Part D, amounts were not projected based on GASB 43 Plan requirements.

SCHEDULE OF FUNDING PROGRESS - CONTINUED

June 30, 2008

FACTORS AFFECTING AMOUNTS AND TRENDS REPORTED – CONTINUED

4. **Change to Fully Insured Medicare** – The fully insured premium rates were significantly less than what was projected on a self funded basis.

NEW FACTORS FOR 2009 AND FUTURE YEARS

1. **Fiscal Year 2009 Change** – Subsequent to June 30, 2008, declines in fair value of worldwide securities markets occurred, which will negatively affect the actuarial value of available assets. The effects are not yet determined.

2. **New 2009 Legislation**

   House Bill 351 (HB 351) – Increases employer and employee contributions rate from 1.95% to 3.00% over 3 years beginning in FY11 for most employees. HB 351 also increased employer and employee contribution rates from 1.95% to 3.75% over 3 years, beginning in FY11 for employees in enhanced retirement plans such as police and fire.

   HB 351 also removed the sunset on the additional $3,000,000 funding from the Tax Suspense Fund enacted by the Legislature in 2007.

   House Bill 573 (HB 573) – Requires return to work retirees and their employers to continue their contributions to NMRHCA and requires employees purchasing service time credits from PERA and ERB to also purchase their additional service time with the NMRHCA.

   This new legislation positively affects the actuarial value of available assets. The effect are not yet determined.

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

June 30, 2008

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Plan Year Beginning	Annual Required Contributions	Actual Contributions Employers and Employees	Percentage Contributed
July 1, 2006	$ 392,591,254	$ 82,703,326	21.1%
July 1, 2007	275,517,523	94,224,026	34.2%
July 1, 2008	286,538,244	Not yet completed	N/A

Notes to schedules of funding progress and contributions from employers and other contributing entities:

1. The Authority obtained its first actuarial valuation as of June 30, 2006 and a second has been performed. Generally accepted accounting principles require data from a minimum of 3 valuations to highlight trends of amounts in the schedule.

SCHEDULE OF NET OPEB OBLIGATION (NOO)

Plan Year Beginning	Annual Required Contributions (a)	Interest on Existing NOO (b)	ARC Adjustment (1) (c)	Annual OPEB Cost (a) + (b) + (c) (d)	Actual Contribution Amount (1) (e)	Net Increase In NOO (d) - (e) (f)	NOO as of End of Year (g)
July 1, 2006	$ 392,591,254	$ -	$ -	$ -	$ 82,703,326	$ 309,887,928	$ 309,887,928
July 1, 2007	275,517,523	15,494,396	(12,417,822)	278,594,097	94,224,026	184,370,071	494,257,999
July 1, 2008	286,538,224	24,837,271	(19,905,468)	291,469,899	Not yet completed		

(1) – Includes interest to end of year

SUPPLEMENTARY INFORMATION

New Mexico Retiree Health Care Authority

COMBINING SCHEDULE OF PLAN NET ASSETS BY FUNCTIONAL ACTIVITY

June 30, 2008

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Eliminations	Total
ASSETS					
Short-term investments with State Treasurer	$ -	$ 7,936,774	$ 24,948	$ -	$ 7,961,722
Receivables					
Accounts receivable	7,731,315	-	-	-	7,731,315
Buy-in obligation receivable	2,046,044	-	-	-	2,046,044
Pension tax receivable	883,704	-	-	-	883,704
Interest receivable	2,964	31,712	-	-	34,676
Due from other funds	7,039,390	-	-	(7,039,390)	-
Total receivables	17,703,417	7,968,486	24,948	(7,039,390)	18,657,461
Investments					
Long-term with State Investment Council					
Fixed income core bonds	54,039,939	-	-	-	54,039,939
Non US equities	34,258,914	-	-	-	34,258,914
Large cap active	33,337,848	-	-	-	33,337,848
Large cap index	32,093,973	-	-	-	32,093,973
Mid/small cap	8,591,721	-	-	-	8,591,721
Emerging markets	8,414,685	-	-	-	8,414,685
Total investments	170,737,080	-	-	-	170,737,080
Capital assets					
Equipment and furniture	-	671,483	-	-	671,483
Less accumulated depreciation	-	(627,963)	-	-	(627,963)
Total capital assets	-	43,520	-	-	43,520
Total assets	$ 188,440,497	$ 15,948,780	$ 49,896	$ (7,039,390)	$ 189,438,061
LIABILITIES					
Short-term investment overdraft	$ 5,689,426	$ -	$ -	$ -	$ 5,689,426
Accounts payable	463,201	94,127	-	-	557,328
Due to other funds	-	7,039,390	-	(7,039,390)	-
Due to General fund	-	-	14,978	-	14,978
Due to other governments	29,003	-	-	-	29,003
Payroll liabilities	-	51,324	-	-	51,324
Compensated absences	-	70,579	-	-	70,579
Deferred revenue	328,796	-	-	-	328,796
Reserve for loss and loss adjustment expense	16,072,000	-	-	-	16,072,000
Total liabilities	22,582,426	7,255,420	14,978	(7,039,390)	22,813,434
Plan net assets	165,858,071	756,586	9,970	-	166,624,627
Total liabilities and plan net assets	$ 188,440,497	$ 8,012,006	$ 24,948	$ (7,039,390)	$ 189,438,061

New Mexico Retiree Health Care Authority

COMBINING SCHEDULE OF CHANGES IN PLAN NET ASSETS
BY FUNCTIONAL ACTIVITY

June 30, 2008

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Eliminations	Total
ADDITIONS					
Contributions					
Retiree	$ 82,324,077	$ -	$ -	$ -	$ 82,324,077
Employer/employee	75,369,375	-	-	-	75,369,375
Employer buy-ins	2,707,222	-	-	-	2,707,222
Employer buy-ins interest portion	160,297	-	-	-	160,297
Total contributions	160,560,971	-	-	-	160,560,971
Investment earnings					
Net (decrease) in fair value of investments	(6,091,426)	-	-	-	(6,091,426)
Interest	311,184	52,996	-	-	364,180
Total net investment earnings (deficit)	(5,780,242)	52,996	-	-	(5,727,246)
Other additions					
Pension tax revenue	13,688,985	-	-	-	13,688,985
Medicare part D	8,079,099	-	-	-	8,079,099
Miscellaneous	92,014	-	-	-	92,014
Rebates	9,119,223	-	-	-	9,119,223
Subrogation reimbursements	147,840	-	-	-	147,840
State appropriation	-	-	8,900	-	8,900
Total other additions	31,127,161	-	8,900	-	31,136,061
Total additions	185,907,890	52,996	8,900	-	185,969,786
DEDUCTIONS					
Premiums and claims	189,710,763	-	-	-	189,710,763
Losses and loss adjustment expenses	2,767,000	-	-	-	2,767,000
General and administrative expenses	-	2,546,168	5,695	-	2,551,863
Depreciation	-	29,565	-	-	29,565
Total deductions	192,477,763	2,575,733	5,695	-	195,059,191
Transfer (out) in, net	(2,707,968)	2,707,968	-	-	-
Change in plan net assets	(9,277,841)	185,231	3,205	-	(9,089,405)
Plan net assets, beginning of year	175,135,912	571,355	6,765	-	175,714,032
Plan net assets, end of year	$ 165,858,071	$ 756,586	$ 9,970	$ -	$ 166,624,627

Due to/from balances in 38100 and 38000 (see page 35) arose principally from misposting of receipts into the wrong fund creating a short-term investment overdraft in 38100.

New Mexico Retiree Health Care Authority

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (ACCRUAL BUDGET BASIS)

For the year ended June 30, 2008

	Fund 38100			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Retiree contributions	$ 78,094,400	$ 78,094,400	$ 82,324,077	$ 4,229,677
Employer/employee contributions	74,336,100	74,336,100	78,236,894	3,900,794
Pension taxes	8,221,300	8,221,300	13,688,985	5,467,685
Investment income	10,450,900	10,450,900	(5,780,242)	(16,231,142)
Prescription rebate revenue	13,447,200	13,447,200	17,438,176	3,990,976
Total revenues	184,549,900	184,549,900	185,907,890	1,357,990
NET ASSET BALANCE BUDGETED	-	15,100,000	-	-
EXPENSES				
Personal services/employee benefits	-	-	-	-
Contractual services	181,710,100	196,710,100	192,477,763	4,232,337
Total expenses	181,710,100	196,710,100	192,477,763	4,232,337
TRANSFERS				
Transfers in - Intra agency from SHARE 38000	-	-	231,832	231,832
Transfers out - Intra agency to SHARE 38000	(2,839,800)	(2,939,800)	(2,939,800)	-
Total transfers			(2,707,968)	
Change in plan net assets, GAAP basis			$ (9,277,841)	

New Mexico Retiree Health Care Authority

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (ACCRUAL BUDGET BASIS)

For the year ended June 30, 2008

	Fund 38000			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Employer/employee contributions	$ -	$ -	$ -	$ -
Pension taxes	-	-	-	-
Investment income	-	-	52,996	52,996
Total revenues	-	-	52,996	52,996
EXPENSES				
Personal services/employee benefits	1,480,900	1,416,900	1,292,468	124,432
Contractual services	501,500	775,500	559,883	215,617
Other financial uses	-	-	-	-
Other	857,400	747,400	693,817	53,583
Total expenses	2,839,800	2,939,800	2,546,168	393,632
TRANSFERS				
Transfers in - Intra agency from SHARE 38100	2,839,800	2,939,800	2,939,800	-
Transfers out - Intra agency to SHARE 38100	-	-	(231,832)	231,832
Total transfers	2,839,800	2,939,800	2,707,968	231,832
Net change in net assets			214,796	
Depreciation			(29,565)	
Change in plan net assets, GAAP basis			$ 185,231	

New Mexico Retiree Health Care Authority

SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL (ACCRUAL BUDGET BASIS)

For the year ended June 30, 2008

	Fund 81000			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Employer/employee contributions	$ -	$ -	$ -	$ -
Pension taxes	-	-	-	-
Investment income	-	-	-	-
General fund appropriation	8,900	8,900	8,900	-
Total revenues	8,900	8,900	8,900	-
EXPENSES				
Personal services/employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other financial uses	-	-	-	-
Other	8,900	8,900	5,695	3,205
Total expenses	8,900	8,900	5,695	3,205
Net change in net assets			3,205	
State general fund reversion expense			-	
Change in plan net assets, GAAP basis			$ 3,205	

OTHER SUPPLEMENTARY INFORMATION

New Mexico Retiree Health Care Authority

COMBINING SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES BY FUNCTIONAL ACTIVITY

June 30, 2008

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Total
GENERAL AND ADMINISTRATIVE EXPENSES				
Personal services	$ -	$ 919,431	$ -	$ 919,431
Contractual services	-	703,176	-	703,176
Employee benefits	-	373,037	-	373,037
Operating costs	-	435,029	5,695	440,724
Supplies	-	46,216	-	46,216
In-state travel	-	57,144	-	57,144
Repairs and maintenance	-	11,656	-	11,656
Out-of-state travel	-	479	-	479
Other expenses	-	-	-	-
Total	$ -	$ 2,546,168	$ 5,695	$ 2,551,863

New Mexico Retiree Health Care Authority

COMBINING SCHEDULE OF SHORT-TERM INVESTMENTS

For the year ended June 30, 2008

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Total
Investment balances per DFA-				
New Mexico State Treasurer				
Share Fund 34300-38000	$ -	$ 7,936,774	$ -	$ 7,936,774
Share Fund 34300-38100	(5,689,426)	-	-	(5,689,426)
Share Fund 34300-83600	-	-	-	-
Share Fund 34300-810	-	-	24,948	24,948
Reconciling items				
Plus deposits in transit	-	-	-	-
Less outstanding checks	-	-	-	-
	$ (5,689,426)	$ 7,936,774	$ 24,948	$ 2,272,296

New Mexico Retiree Health Care Authority

SCHEDULE OF APPROPRIATIONS

For the year ended June 30, 2008

Authority	Appropriation Period	Share Fund	Total Appropriation	Current Year Expenditures	Current Year Reversion Amount	
Laws 2007 House Bill 2, Chapter 33, Section 4	2008	38000	$ 2,778,000	$ 2,546,168	$ 231,832	
Laws 2007 House Bill 2, Chapter 33, Section 4	2008	81000	$ 8,900	$ 5,695	$ -	nonreverting

According to 10-7C-16 NMSA 1978, funds to administer the Retiree Health Care Act are to be made by an operating budget adopted by the Board, adopted by the State Budget Division, and pursuant to appropriation by the Legislature. The appropriated amounts to SHARE Fund 38000 are recorded as transfers between Benefit Fund (38100) and the Administrative Fund (38100). See Note P. The appropriated amount for the Discount Prescription Fund (81000) is a State General Fund appropriation and is recorded as such.

atkinson

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

Mr. Hector H. Balderas
New Mexico State Auditor
and
The Board of Directors
New Mexico Retiree Health Care Authority
Albuquerque and Santa Fe, New Mexico

We have audited the financial statements of the fiduciary activities of the New Mexico Retiree Health Care Authority (the Authority) as of and for the year ended June 30, 2008 as listed in the table of contents, and have issued our report thereon dated April 6, 2009. We have also audited the combining schedule of plan net assets and changes in net assets by function and respective budgetary comparisons presented as supplementary information as of and for the year ended June 30, 2008 as listed in the table of contents. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting as findings 07-05, 07-06, 08-03, 08-05 and 08-06.

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

Our consideration of the internal control over financial reporting was of the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider finding 08-05 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 *Governmental Auditing Standards*.

We noted certain matters that are required to be reported under *Government Auditing Standards*, paragraph 5.14 and 5.16 and Section 12-6-5 NMSA 1978 which are described in the accompanying Schedule of Findings and Responses as findings 08-01, 08-02, 08-04 and 08-07.

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

This report is intended solely for the information and use of management, others within the Authority, the Audit Committee, the Office of State Auditor, and the New Mexico Legislature, Department of Finance and Administration and is not intended to be and should not be used by anyone other than those specified parties.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
April 6, 2009

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2008

RESOLUTION OF PRIOR YEAR FINDINGS

07-01 Entering into professional service contracts without proper approval – Resolved
07-02 Professional service contracts expired without properly extending the contract – Repeated and modified (see 08-01)
07-03 Certain interest revenues not recorded properly recorded (Significant Deficiency) – Resolved
07-04 Computer implementation Project SHARE issues (Significant Deficiency) – Resolved
07-05 Late submission of audit report (Significant Deficiency) – Repeated
07-06 Capital assets not properly tracked (Significant Deficiency) – Repeated
07-07 Contributions not timely received for certain small members – Resolved

CURRENT YEAR AUDIT FINDINGS

07-05 Late submission of audit report (Significant Deficiency)

Condition
The Authority's financial statements were not submitted to the New Mexico State Auditor's Office on or before December 15, 2008. The audit report was submitted on May 2009.

Criteria
According to 2.2.2.9.A. NMAC, New Mexico state agencies are required to submit audited financial statements to the New Mexico State Auditor's Office by December 15th of that audited year.

Cause
The Authority was not timely in initiating the bid process for the professional contract for audit. In addition, the approval process extended the time before the audit could be started.

Effect
The Board is not in compliance with New Mexico State Statutes. The financial statement users including legislators, creditors, contributors, state and federal grantors, and others are do not have a timely audit report and financial statements available for their review.

Recommendation
The Authority should take necessary steps to ensure that future audit reports are submitted on time.

Management's Response
Management agrees with the finding. The Authority will complete future audits in strict compliance with 2.2.2.9.A NMAC.

07-06 Capital assets not properly tracked (Significant Deficiency)

Condition
The Authority did not have a complete depreciation schedule of their capital assets to properly track additions, deletions, and depreciation.

Criteria
According to 12-6-10 NMSA 1978 governing authorities are required to conduct a physical inventory of the capital assets which was properly executed. However, the physical inventory did not include any dollar value for the capital asset items. Model Accounting Practices FIN 6 - Asset Management prescribes standards for accounting for assets.

Cause

Management did not complete all required accounting and other procedures in relation to capital asset requirements.

Effect
The Authority was not able to post proper depreciation amounts to their books and records resulting in improper financial statement data. Audit adjustments were required at year-end.

Recommendation
The Authority should complete its capital asset schedules and update them periodically. The Authority should complete capital asset requirements on a timely basis.

Management's Response
Management agrees with the finding. The Authority is in process of implementing policy and procedures to more effectively manage its capital assets.

08-01 Profession contracts expired without properly extending the contract

Condition
The Authority allowed one service contract with the Discount Prescription Drug Program (DPDP) to expire during the year. Though the contract has no cost attached to it, the contract was not properly extended or renewed resulting in a violation of the New Mexico Procurement Code for services rendered under contracts.

Criteria
According to 13-1-28 NMSA 1978, professional service contracts of greater than $20,000 are required to be part of a competitive bid process through New Mexico State Purchasing. Contracts should be in place to afford the protection of documented contract provisions between parties.

Cause
During 2008, management did not renew this contract due to oversight. The DPDP Program has a decreasing scope as Medicare Part D was initiated in 2007.

Effect
The Authority was not in compliance with New Mexico State Statutes. The professional service contract may not have been an approved New Mexico State Purchasing resulting in payments for services already rendered not being made to the professional service provider. Though the contract is for managing the DPDP and required no payments, improper management of contracts could result in payments for services already render not being made to a professional service provider.

Recommendation
The Authority should take the necessary steps to renew contracts or obtain new contracts according to New Mexico State Statutes.

Management's Response
Management agrees with the finding. The Authority will work with DFA on inclusion of the DPDP program as part of a contract renewal/amendment with our Pharmaceutical Benefits Manager.

08-02 Draft meeting minutes were not timely prepared

Condition
The Authority did not timely prepare draft or final meeting minutes for Board meetings that occurred during fiscal year 2008.

Criteria
According to the Open Meetings Act, Section 10-15-1 NMSA 1978, draft meeting minutes are to be prepared within ten working days after the meeting.

Cause
The Board had a significant amount of meetings during 2008 which caused a backlog for the employee in charge of drafting meeting minutes.

Effect
The Authority was not in compliance with the New Mexico State Statutes. The retirees, governmental employers, employees, and other New Mexico residents were not kept completely informed of any potential issues for which they may base decision making.

Recommendation
The Authority should consider having another employee assist with drafting the meeting minutes.

Management's Response
Management agrees with the finding and the Authority has hired a professional contractor to produce timely minutes. Backlogged minutes will be brought current.

08-03 Payroll and payroll related records (Significant Deficiency)

Condition

Payroll testing revealed the following deficiencies in payroll compliance and documentation.

a. Form I-9 was not in the personnel file in 7 out of 25 files tested.
b. Form W-4 was not in the personnel file for 2 out of 24 files tested.
c. The employee's timesheet was not approved in 1 out of 16 tested items where it was required.
d. Overtime was not calculated correctly in 2 out of 4 instances tested. Additionally, overtime hours used for payment did not agree to timesheets in 2 out of 16 instances tested.
e. No annual appraisal evaluation was performed in all 11 files examined.

Criteria

According to 1.7.1.12 NMAC, New Mexico State agencies are required to maintain records of each employee's employment history in accordance with applicable state and federal requirements. 1.7.9.9.8 NMAC requires performance appraisals on at least an annual basis.

Cause

During fiscal years 2007 and 2008, the Authority's Human Resource position was vacant. Management did not ensure that the required documentation and evaluation procedures were performed. In addition, there was still confusion among the employees of the Authority concerning using the S.H.A.R.E. time entry payroll system.

Effect

Employee employment records are not complete and in compliance with state and federal requirements. Accounting records do not match internal records. Career employees are not receiving timely performance feedback which is a factor in quality job performance.

Recommendation

The Authority should take necessary steps to ensure that employee employment records represent the employment history of their employees and that all compliance requirements are met.

Management's Response

Management agrees with the finding. The Authority undertook a project to locate and consolidate its personnel and payroll records and bring them up to date. Designated Authority representatives have gathered record-keeping requirements and visited with other agencies to review their record maintenance systems. As of this writing, a new filing system has been established and applied to all records located to date. This project includes identifying missing records, conducting additional searches, and setting a course of action for records that cannot be located. The Authority's managers, exempt and classified, attended training in performance appraisals earlier this year and appraisals have either been established or are in the process of being established as of this writing. The Authority has instituted pre and post-auditing procedures to ensure automated and manual payroll records match and are complete.

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2008

08-04 Reversion for SHARE fund 81000 was not remitted

Condition
The Authority did not revert monies for years prior to 2007 from SHARE Fund 81000 to the State General Fund in the amount of $14,978.

Criteria
According to House Bill 2, General Appropriation Act, all funds are to revert back to the State General Fund unless otherwise noted. During 2007, SHARE Fund 81000 became a non-reverting fund (see Note P). However, periods before 2007 are required to be reverted.

Cause
Management did not ensure that the reversion was made.

Effect
The Authority was not in compliance with State statutes, and the State General Fund did not receive the monies due.

Recommendation
The Authority should take necessary steps to ensure that all transfers, audit adjustments, and reversions are proper and timely processed.

Management's Response
Management agrees with the finding. The Authority has submitted to DFA the reversion to the State General Fund.

08-05 Audit adjustments (Material Weakness)

Condition
There were journal entries posted by the auditor to correct the following items during the audit not related to customary year-end adjustments:

- Fund balances for funds 38000 and 38100
- Pension tax receivable
- Deferred revenue
- Due to/from accounts for 38000 and 38100

Additionally, we noted a material client adjustment not posted to the accounts.

Criteria
It is the responsibility of the Authority to keep books and records including the necessary adjusting entries to properly state the financial position of the Authority. Under Statement of Auditing Standards No. 112, *Communicating Internal Control Related Matter in an Audit*, it is considered a control deficiency if material misstatements exist in the financial statements. Model Accounting Practices FIN 3 general ledger specifically requires closing procedures.

Cause
The Fiscal Director was more involved with operations during the year due to staffing issues. The noted accounts were not adjusted in advance of the audit.

Effect
The Authority did not have reconciled data for the noted accounts available during the year through year-end. Incorrect decisions are possible with incomplete or erroneous account balances.

Recommendation
We recommend that the Authority follow a closing policy recommended by DFA for interim periods including the year-end closing.

Management's Response
Management agrees with the finding. The Authority provided the auditors with trial balances without the audit adjustments. The journal entries were related to the posting of the IBNR, deferred revenue, accounts receivable and investment balances. The Authority will post the audit adjustments to the trial balance before submitting the trial balances to the auditor.

08-06 Receipts held in suspense (Significant Deficiency)

Condition
There were material balances in the final trial balances given to auditors for receipts held in suspense. This caused a misstatement in revenues during the year.

Criteria
It is the responsibility of the Authority to keep books and records including the necessary adjusting entries to properly state the financial position of the Authority. Model Accounting practices FIN 3.1-10 details year-end closing procedures.

Cause
There were several cash receipts posted during the year to the wrong account. Adjusting entries were not initiated to correct the balances.

Effect
Interim revenues were not complete or accurate in the SHARE system and may have affected other management information procedures.

Recommendation
We recommend the Authority work to build the capability to prepare reconciled financial statements during the year. We recommend year-end closing procedures be accomplished prior to the audit.

Management's Response
Management agrees with the finding. The fiscal staff will work extensively on reconciling all accounts. The receipts were posted to the wrong fund. The Authority will continue to improve procedures that require monthly reconciliation of all accounts. The receipts that were posted to the suspense fund have been corrected.

08-07 Database information is not properly updated

Condition
The Authority uses a secondary software database to record detail information for participating retirees and employers. The master listing for participating members did not agree to supporting reports in a few instances.

Criteria
Monitoring is one of the five components of internal control as detailed by the Committee of Sponsoring Organizations (COSO). A properly maintained database will provide timely and reliable information for operating needs.

Cause
The database may not be adequate for this type of monitoring. Management has not reconciled the master listing to supporting reports for smaller entities.

Effect
Keeping non-current records does not allow the Authority to properly monitor the activity or lack of activity of participating retirees and employers. The Authority could potentially not be collecting revenues from retirees and employers while incurring related expenses.

Recommendation
The Authority should compile a complete master listing of participating members and update it as appropriate.

Management's Response
Management agrees that the REBIS System as currently designed may not be ideal for monitoring the contribution levels of Retirees and participating employers. We concur with the recommendation that a Master List of participating members should be compiled and updated on a regular basis by Management. Additionally, Management will institute a top to bottom review of REBIS capabilities as well as policies and procedures related to the receipt and collection of revenues. It should be noted that a major upgrade of REBIS or its replacement could be extremely expensive and the financing for same would require Legislative and DOIT approval.

EXIT CONFERENCE

June 30, 2008

An exit conference was held on May 8, 2009, with the following in attendance:

NM Retiree Health Care Authority Personnel and Board Members	Atkinson & Co., Ltd. Personnel
Alfredo Santistevan, Chairman, Board of Directors	Martin Mathisen, CPA, Audit Director
Wayne Propst, Executive Director	David Thomas, Audit Senior
Carmen Roybal, CPA, Fiscal Director	
Jan Goodwin, Chairperson, Audit Committee	
Orlando Romero, Board of Directors	
Rudy Batista, Communications Secretary	
Bill Walsh, Deputy Director	
Bruce Malott, Board of Directors, by Telephone	

The basic financial statements have been prepared by Atkinson & Co., Ltd. with assistance from the New Mexico Retiree Healthcare Authority, who is responsible for their content.

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