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**FINANCIAL
STATEMENTS AND
REPORT OF
INDEPENDENT
CERTIFIED PUBLIC
ACCOUNTANTS**

**NEW MEXICO RETIREE
HEALTH CARE AUTHORITY**

June 30, 2009

atkinson

PRECISE. PERSONAL. PROACTIVE.

New Mexico Retiree
Health Care Authority

OFFICIAL ROSTER

June 30, 2009

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, Secretary	NM Association of Educational Retirees
James B. Lewis/Orlando Romero	State Treasurer's Office
Michael D. Anaya	Santa Fe County Commissioner
Terry Slattery/Kurt Weber**	Public Employees Retirement Association
Justin Najaka	Active State Employees
Jan Goodwin	Educational Retirement Board
Jeff Varela	Retired Public Employees of NM
Rudy M. Bantista	Communication and Board Recording Secretary

Staff

Wayne Propst	Executive Director
Bill Walsh	Deputy Director
Carmen Roybal, CPA	Fiscal Director

*Resigned effective June 1, 2009

**Designated as of May 21, 2009

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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 statement of plan net assets and statement of changes in plan net assets of the New Mexico Retiree Health Care Authority (NMRHCA or Authority) as of and for the year ended June 30, 2009 as listed in the table of contents. We have also audited the combining schedule of plan net assets and changes in plan net assets by functional activity and the schedule of revenues and expenses – budget and actual presented as supplementary information as of and for the year ended June 30, 2009 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.

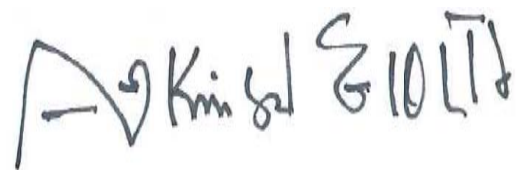
As discussed in Note A12, the financial statements of the New Mexico Retiree Health Care Authority are intended to present the net assets and changes in net assets of only that portion of the fiduciary activities of the State of New Mexico that is attributable to the transactions of the New Mexico Retiree 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, 2009, 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, 2009, 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, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2009, on our consideration of NMRHCA'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 Contributions from Employers and other Contributing Entities on pages 33-35 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 Contributions from Employers and other Contributing Entities do not present three years of trend information as required by generally accepted accounting principles. Two actuarial evaluations based on GASB 43 requirements have been performed. Based on GASB requirements, actuarial evaluations should be performed at least every two years and the effective date of this standard is 2007.

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.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' and a checkmark-like shape.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 1, 2009

New Mexico Retiree Health Care Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

The New Mexico Retiree Health Care Authority (NMRHCA or Authority) offers the following overview and analysis of the financial position of the Authority and the results of operations for the year ending June 30, 2009. Data for FY 2008 is provided for comparative purposes. The Financial Statement elements does not differ greatly from those presented in prior years except for changes in the classification of net assets which was formerly reported as fund balance.

FINANCIAL REPORTING REQUIREMENTS:

- Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, as adopted by the Authority July 1, 2001. It requires that financial statements include both government-wide financial statements and fund statements and that operations be accounted for in a single private purpose trust fund of the fiduciary type.
- GASB Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, as adopted by the Authority for the year ended June 30, 2007. Under this provision, the Authority is considered a cost sharing multi-employer arrangement equivalent to a trust. It further requires certain detailed information in its financial statements, including disclosure of unfunded liabilities to help users to assess changes to the funded status of the Authority. A GASB 43 analysis is performed by NMRHCA biannually. The most recent analysis was for FY 2008; the next evaluation will be for FY 2010.

CONDENSED STATEMENT OF ASSETS AND LIABILITIES

The Authority's assets, liabilities and net assets can be summarized as follows as of June 30, 2009 and 2008 (please note that the Authority has no long-term liabilities):

	2009	2008
Cash and cash equivalents	\$ 17,194,936	\$ 7,961,722
Accounts receivable	11,898,805	7,731,315
Buy-in obligation receivable	1,850,912	2,046,044
Other current assets	1,239,748	918,380
Investments	136,474,752	170,737,080
Property and equipment, net	32,844	43,520
Total assets	<u>\$ 168,691,997</u>	<u>\$ 189,438,061</u>

New Mexico Retiree Health Care Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
(UNAUDITED)**

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

CONDENSED STATEMENT OF ASSETS AND LIABILITIES – CONTINUED

	<u>2009</u>	<u>2008</u>
Short-term investment overdraft	\$ -	\$ 5,689,426
Reserve for loss and loss adjustment	11,713,000	16,072,000
Deferred revenue	326,517	328,796
Other current liabilities	<u>10,438,112</u>	<u>723,212</u>
 Total liabilities	 22,477,629	 22,813,434
 Net assets:		
Invested in capital assets	32,844	43,520
Held for health care benefits	<u>146,181,524</u>	<u>166,581,107</u>
 Total plan net assets	 <u>146,214,368</u>	 <u>166,624,627</u>
 Total liabilities and plan net assets	 <u>\$ 168,691,997</u>	 <u>\$ 189,438,061</u>

CONDENSED STATEMENT OF CHANGES IN NET ASSETS

	<u>2009</u>	<u>2008</u>
Contributions and other revenue	\$ 187,898,007	\$ 177,999,147
Investment (loss) income	(34,082,328)	(5,727,246)
Pension tax revenue	15,126,981	13,688,985
State appropriation	<u>9,700</u>	<u>8,900</u>
 Total additions	 168,952,360	 185,969,786
 All operating expenses relating to premiums and claims	 <u>191,858,845</u>	 <u>195,059,191</u>
 Change in plan net assets	 <u>\$ (22,906,485)</u>	 <u>\$ (9,089,405)</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
(UNAUDITED)**

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

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

	<u>2009</u>	<u>2008</u>
Retirees	\$ 91,045,133	\$ 82,324,077
Employer	52,715,626	50,233,688
Employee	26,377,587	25,135,687
Employer buy-ins	90,780	2,707,222
Employer buy-ins interest portion	<u>142,224</u>	<u>160,297</u>
	<u>\$ 170,371,350</u>	<u>\$ 160,560,971</u>

COMMENTARY:

Despite premium increases for retirees and their dependents enacted in FY 2009, NMRHCA net assets declined from \$189.4 million in FY 2008 to \$168.7 million in FY 2009.

- The cash balance increased by \$9.2 million, or 116% in FY 2009. The increase was due to June 2009 providers' invoices being recognized as accounts payable. The offset is an increased in other current liabilities by \$9.7 million, or 134% in FY 2009.
- The retiree contributions increased by \$8.7 million, or 10.6% in FY 2009. In July 2008, the NMRHCA Board of Directors increased retiree premium contributions for non-Medicare retiree cost share to 35%, non-Medicare spouse cost share to 60%, Medicare retiree cost share to 50% and Medicare spouse cost share to 75%.
- The employer/employee contributions increased by \$3.7 million, or 4.9%. The increase was due to recognizing additional employer/employee contributions from payroll paid in FY 2010 for the period ending June 30, 2009.
- Operating expenditures relating to premiums and claims decreased by \$4.9 million, or 3.0%. The primary decrease was due to claims running below trend levels.
- Investment holdings decrease \$34.4 million (20.1%). The cause was the faltering US economy and a corresponding weak performance at year-end of Large Cap Active, Core Bonds, Large Cap Index, and Non US Developed, Non US Emerging and Mid/Small Cap categories.
- The estimated Incurred but Not Reported (IBNR) amount decreased by \$4.4 million (27.1%) in FY 2009 compared to FY 2008. The decrease was due to the change of the NMRHCA Medicare Supplement Plan from a self insured to a fully insured product.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
(UNAUDITED)**

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

BUDGETARY ANALYSIS

The FY 2009 approved budget was \$203.7 million. It assumed contractual services budget of \$200.8 million and \$2.9 million in other financing sources. Actual expenditures were \$194.0 million for contractual services and \$2.7 million in other financing sources. Actual revenues were \$201.1 million. Highlights are the following:

- No increase in budget authority was requested.
- There was a \$4.4 million surplus between claims and revenue.
- Program support was \$153,831 under budget.

CAPITAL ASSET ACTIVITY

The Authority had no asset additions for FY 2009. Capital assets consist mainly of computers and other equipment.

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

The New Mexico Retiree Health Care Act was enacted in Sections 10-7C-1 through 10-7C-19 NMSA 1978, for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service in the State and their eligible dependents. The Authority offers both pre Medicare and Medicare plans to eligible retirees, as well as ancillary coverage including dental, vision, and life insurance. The Retiree Health Care Act provides that the benefits offered to retired public employee may be modified, diminished, or extinguished by the Legislature, and that the Act does not create any contract trust or other rights to public employees for health care benefits. Financing is provided through the setting of premiums for Retirees by the NMRHCA Board of Directors and the allocation of governmental revenue streams by the Legislature on a "pay as you go basis".

NMRHCA administers the New Mexico Retiree Health Care Act. It has a fund base comprised of active employee payroll deductions, participating employer contributions, monthly premium contributions of enrolled participants, investment income, and amounts distributed annually from the Taxation Administration Suspense Fund ("TAA Fund"). A separate distribution from the TAA Fund, set at \$3,000,000 per year, was scheduled to sunset on June 30, 2010, but legislation passed during the 2009 session removed the sunset.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
(UNAUDITED)**

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS – CONTINUED

As of June 30, 2009, respective employer/employee contribution rates are 1.3 percent and 0.65 percent of the participating employee's salary. However, again as a result of legislation passed during the 2009 Legislative session and signed by the Governor, the employer/employee contributions is scheduled to increase to 3% beginning July 1, 2010, phased in over the next three fiscal years.

In July of 2009, the NMRHCA Board of Directors approved significant changes in the medical plan designs. Beginning in January 2010, all pre Medicare retirees will have a choice of a Premier or a Premier Plus plan, both of which contain features that increase the cost sharing requirements for Retirees as compared to the previously offered health plan choices. Cost sharing features were also added to the offered Medicare Supplement and/Medicare Advantage Plan. These changes along with the premium increases enacted in 2008 extend NMRHCA's projected solvency to 2026/8.

Based on the GASB Statement 43 valuation of FY 2008, and assuming that the NMRHCA Fund is an equivalent arrangement to an irrevocable trust and, hence using a discount rate of 5%, the unfunded actuarial accrued liability ("UAAL") has been calculated to be approximately \$2.9 billion. As required by GASB Statement 43, this calculation takes into consideration only current assets of the NMRHCA Fund. The UAAL is approximately \$1.1 billion less than calculated in the June 30, 2006 GASB Statement 43 valuation. In addition, this GASB Statement 43 valuation indicates that the State's annual required contribution (the amount necessary to fully fund normal cost plus a 30-year amortization of the UAAL) is approximately \$100 million less than in the June 30, 2006 valuation.

As already noted, the Board has taken several actions to reduce the UAAL in 2009 and in future years, including raising premiums and increasing contributions from retirees for the most generous plans, instituting new plan designs, increasing co-payments and out-of-pocket maximums and implementing cost sharing for its Medicare Supplement participants. The Board continues to look for additional opportunities to further strengthen the financial standing of the Authority including increasing years of service requirements and tapping into other revenue sources. During FY 2009, the Authority filled a number of key staff positions including Executive Director, Deputy Directors, Human Resources Director, Customer Service Manager, and Communication/Government Affairs Director.

Future Challenges

Looking ahead there are a number of challenges facing NMRHCA including possible State revenue shortfalls, the lack of pre-funding of future retiree medical expenditures, increasing health care costs, and the uncertainty of the impact of national health reform at the federal level.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
(UNAUDITED)**

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS – CONTINUED

State Revenue Problems

Recent revenue shortfalls in New Mexico could have a significant and negative impact on the solvency and financial position of the Authority. For example, historically the Authority has relied on a 4% growth assumption in payroll for its long-term financial projections. It is unlikely that New Mexico will see any growth in public payroll for FY 2011 or in the foreseeable future, and it is possible that payroll growth will be negative. Additionally, any effort to delay the scheduled increase to the employer/employee increase scheduled to take effect in FY 2011 to help ease the State's budget problems would result in deficit spending by the Authority. Combining the two, a delay in the employer/employee increase and flat or declining payroll growth, could rapidly reverse the gains the Authority, Legislature and Governor have made in recent years to stabilize the Authority and preserve a retiree health care benefit for current and future retirees.

Pre-Funding of Future Retiree Medical Expenditures

Virtually all funds collected annually by NMRHCA are utilized for the purpose of meeting annual claims and program support requirements for existing retirees. Moreover, the Authority's reserve/investment fund balances do not cover even a year's annual claims costs at current rates. In order for retiree health care to be sustainable as a benefit, NMRHCA needs to find a way to gradually increase its reserve fund balance through identification of new revenue sources, additional increases to existing revenue sources and further changes to benefit structures.

Rising Health Care Costs and National Health Reform

Health care costs have been rising at percentages in excess of the gross domestic product for many, many years. This trend impacts both the affordability of health care and health insurance. According to the Kaiser Family Foundation, the average annual premium in 2009 for family coverage is \$13,375. This is an increase of 131% since 1999. Efforts at the national level to reform health care could have an impact on NMRHCA; however, it is too early to determine the nature or extent of the impact.

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

New Mexico Retiree Health Care Authority

STATEMENT OF PLAN NET ASSETS

June 30, 2009

ASSETS

Short-term investments with State Treasurer	\$ 17,194,936
Receivables	
Accounts receivable - employers, employees and participants	8,778,522
Accounts receivable - rebates and Medicare Part D	3,120,283
Buy-in obligation receivable	1,850,912
Pension tax receivable	<u>1,239,748</u>
Total receivables	14,989,465
Long-term investments with State Investment Council	
Fixed income core bonds	52,613,844
Large cap - active	25,428,516
Large cap index	24,010,899
Non US equities	22,957,428
Emerging markets	5,760,369
Mid/small cap	<u>5,703,696</u>
Total investments	136,474,752
Capital assets	
Furniture and equipment	671,483
Less accumulated depreciation	<u>(638,639)</u>
Total capital assets	<u>32,844</u>
Total assets	<u>\$ 168,691,997</u>

LIABILITIES

Accounts payable	\$ 10,258,741
Due to other governments	29,003
Payroll liabilities	74,680
Compensated absences	75,688
Deferred revenue	326,517
Reserve for loss and loss adjustment expense	<u>11,713,000</u>
Total liabilities	22,477,629
Commitments and contingencies	-
Invested in capital assets	32,844
Plan net assets held in trust for other post employment benefits, restricted	<u>146,181,524</u>
	<u>146,214,368</u>
Total liabilities and plan net assets	<u>\$ 168,691,997</u>

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, 2009

ADDITIONS

Contributions		
Retirees	\$	91,045,133
Employer		52,715,626
Employees		26,377,587
Employer buy-ins		90,780
Employer buy-ins interest portion		<u>142,224</u>
Total contributions		170,371,350
Investment earnings		
Interest on short-term investments with state treasurer		180,000
Net (decrease) in fair value of investments		<u>(34,262,328)</u>
Total net investment deficit		(34,082,328)
Other additions		
Pension tax revenue		15,126,981
Medicare Part D		11,362,929
Rebates		5,998,451
Subrogation reimbursements		150,587
Refunds and miscellaneous		14,690
State general fund appropriation		<u>9,700</u>
Total other additions		<u>32,663,338</u>
Total additions		168,952,360
DEDUCTIONS (ADDITIONS)		
Premiums and claims		193,516,497
General and administrative expenses		2,690,672
Depreciation expense		10,676
Losses and loss adjustment accrual decrease		<u>(4,359,000)</u>
Total deductions		<u>191,858,845</u>
Change in plan net assets		(22,906,485)
Plan net assets, beginning of year		166,624,627
Restatement - Prior period adjustment (Note V)		<u>2,496,226</u>
Plan net assets, beginning of year, as restated		<u>169,120,853</u>
Plan net assets, end of year	\$	<u>146,214,368</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A – FINANCIAL REPORTING ENTITY

The New Mexico Retiree Health Care Authority (NMRHCA or Authority) 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 New Mexico 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 New Mexico Retiree Health Care Act to be selected by the New Mexico Municipal League;

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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 New Mexico 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. 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 NMRHCA is a self-funded mainly self-insured entity pursuant to Section 10-7C, NMSA 1978, 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 NMRHCA self-insurance liability. NMRHCA operations can also be affected by legislation.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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 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 FY 2008. See section 10-7C-13. Increases to retiree contributions were made based on plan type for FY 2009.

The Authority has no component units.

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

1. Basis of Accounting

NMRHCA uses the accrual basis, subject to certain balances not accrued such as depreciation and capital outlay, 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 NMRHCA to provide comprehensive group health insurance. As a result, contributions received from participants are considered operating revenues.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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 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 50%. 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 \$250,000 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 10 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

The Authority prepares its budget on the accrual basis. Depreciation and investment income are not budgeted. 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 Amendment Requests (BAR) 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. No BARs were filed during 2009 increasing expected expenditures for related budgetary categories.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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, 2009 and amounts due from retirees for monthly premiums. Deferred revenues consist of advance premiums paid by retiree's 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 periods 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 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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

11. New Accounting Standards Affecting NMRHCA

Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* has been issued. This standard was issued to provide increased clarity for fund balance type definitions and for classification rules for fund balances. This standard will be implemented for the FY 2011.

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 stand alone financial reports of OPEB plans established as trusts. The Authority who administers the New Mexico Retiree Health Care Act for participating public employees and employers for the State of New Mexico and issues plan financial statements thereon. NMRHCA implemented GASB Statement No. 43 for the year ended June 30, 2007.

The legislation establishing NMRHCA specifically did not intend to create formal trust relationships among the participating employees, retirees, employers and the Authority administering the New Mexico 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.

New Mexico Retiree Health Care Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE C – GASB NO. 43 IMPLEMENTATION – CONTINUED

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 three years as specified in GASB 43.

	<u>June 30, 2008</u>	<u>June 30, 2006</u>
Plan membership:		
Current retirees and surviving spouses	\$ 27,928	\$ 24,815
Inactive and eligible for deferred benefit	7,853	-
Current active members	<u>94,600</u>	<u>115,477</u>
	<u>\$ 130,381</u>	<u>\$ 140,292</u>
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	<u>47,687</u>	<u>61,839</u>
	<u>\$ 94,600</u>	<u>\$ 115,477</u>

New Mexico Retiree Health Care Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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	96,816,528	33.8%

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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 30 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.

GASB Statement 45

GASB Statement 45 requires accrual accounting for employers for retiree welfare benefits, principally healthcare. NMRHA has adopted GASB Statement No. 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE C – GASB NO. 43 IMPLEMENTATION – CONTINUED

The following changes in assumptions were made for the year ended June 30, 2008:

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, 2009 was \$75,688.

Balance as of June 30, 2008	Additions	Deletions	Balance as of June 30, 2009	Amount Due Within One Year
\$ 70,579	\$ 139,920	\$ 134,811	\$ 75,688	\$ 75,688

New Mexico Retiree Health Care Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE E – PROPERTY AND EQUIPMENT

A summary of furniture and equipment at June 30, 2009 is as follows:

CAPITAL ASSETS ROLLFORWARD

Description	Adjusted Balance at 6/30/2008	Additions	Deletions	Balance at 6/30/2009
Capital assets - furniture and equipment	\$ 671,483	\$ -	\$ -	\$ 671,483

ACCUMULATED DEPRECIATION ROLLFORWARD

Description	Adjusted Balance at 6/30/2008	Additions	Deletions	Balance at 6/30/2009
Accumulated depreciation	\$ (627,963)	\$ (10,676)	\$ -	\$ (638,639)

Depreciation expense was \$10,676 for the year ended June 30, 2009. All depreciation was allocated to the administrative function.

NOTE F – PENSION PLAN – PUBLIC EMPLOYEES 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE F – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT PLAN – CONTINUED

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. 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. NMRHCA's contribution to PERA for the years ended June 30, 2009, 2008 and 2007 was \$184,303, \$143,639, and \$148,137, respectively, equal to the amount of the required contributions for each fiscal year.

NOTE G – RETIREE HEALTH CARE ACT PLAN

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

Administrative Fund (38000): Created by 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 New Mexico 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 New Mexico 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 New Mexico Retiree Health Care Act.

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 NMRHCA participate in the plan.

The post-employment benefit accrual basis revenues and expenses relating to the approximately 26,598 retirees participating in the plan for the year ended June 30, 2009 consisted of:

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE G – RETIREE HEALTH CARE ACT PLAN – CONTINUED

Retiree/employer/employee contributions	\$ 170,229,126
Premiums and claims	<u>(193,516,497)</u>
Net expenditures	<u>\$ (23,287,371)</u>

Discount Prescription Drug Program (81000): Created by 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.

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 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 New Mexico 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, and supplemental life insurance.

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 NMRHCA’s 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.

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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

Funding Policy. The New Mexico 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 NMRHCA or viewed on their website at www.nmrhca.state.nm.us.

The New Mexico 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, 2009, 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, 2009. 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.

Reserve for losses and loss adjustments including current portion at June 30, are as follows:

	<u>Balance as of June 30, 2008</u>	<u>Balance as of June 30, 2009</u>	<u>Current Portion</u>
Estimated Claims Liability	<u>\$ 16,072,000</u>	<u>\$ 11,713,000</u>	<u>\$ 11,713,000</u>

One of the Medicare health plans the Authority offers changed to a fully insured plan resulting in no actuarial measurement causing a decrease in the estimate.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE J – JOINT POWERS AGREEMENTS

NMRHCA has entered into two joint powers agreements:

1. An agreement exists between NMRHCA and the New Mexico State Investment Council (NMSIC) in order to establish a relationship between NMRHCA and NMSIC. Under this agreement, NMSIC will act as the investment manager of the Retiree Health Care Fund for NMRHCA and will invest NMRHCA's long-term reserves and provide services in accordance with the guidelines provided in 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 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 NMRHCA on a monthly basis.

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

2. An agreement exists among 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

NMRHCA maintains a joint powers agreement with the New Mexico State Investment Council to provide investment services in accordance with guidelines, listed in NMRHCA's Investment Policy. 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 \$212,433 for the year ended June 30, 2009.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE K – INVESTMENTS – CONTINUED

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 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 NMSIC's use of derivatives is not made available to NMRHCA. NMRHCA's investments were divided into pooled investments as follows at June 30, 2009.

	<u>Fair Value</u>	<u>Units</u>
Fixed income core bonds	\$ 52,613,844	26,274
Large cap - active	25,428,516	14,749
Large cap index	24,010,899	21,952
Non US equities	22,957,428	24,228
Emerging markets	5,760,369	1,743
Mid/small cap	<u>5,703,696</u>	4,501
Total	<u>\$ 136,474,752</u>	

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, 2009:

Fair value as of June 30, 2008	\$ 170,737,080
Add: Net market decreases during fiscal year 2009	(34,262,328)
Less: Withdrawals	<u>-</u>
Fair value as of June 30, 2009	<u>\$ 136,474,752</u>

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.

New Mexico Retiree Health Care Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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, 2009 is as follows:

Fund	SHARE Fund No.	Fair Value June 30, 2009
Benefits Fund	38100	\$ 15,946,991
Administrative Fund	38000	1,233,978
Discount Prescription Fund	81000	<u>13,967</u>
		<u>\$ 17,194,936</u>

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, 2009.

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 NMRHCA that is not received by June 30 is accrued. All amounts accrued are received by NMRHCA after year-end. For the year ended June 30, 2009, the total revenue was \$15,126,981. HB 351, passed by the Legislature in 2009, removed a sunset clause from revenue received from the State Taxation and Revenue Suspense Fund.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE N – OPTIONAL COVERAGES

Beginning September 1, 1993, 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 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 NMRHCA. Therefore, the revenue generated through the collection of optional premium dollars by 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.

NOTE O – COMMITMENTS AND CONTINGENCIES

1. Legal Proceedings

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 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 NMRHCA.

2. Risk Management

NMRHCA is exposed to various risks of loss for which 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 (RMD). The Authority pays premiums to participate in the State Insurance Program. Coverages are designed to satisfy the requirements of the state tort claims. Also, any claims are processed through RMD. There are no pending or threatened legal proceedings at year-end.

3. Lease Agreements

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 has 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 has a 4-year equipment lease for two mailing machines ending August 15, 2011 and November 16, 2012. The Authority has a 4-year copier lease agreement ending March 31, 2011. The Authority also leases storage space. All leases are operating leases. The 4-year lease commitment under these leases is as follows:

New Mexico Retiree Health Care Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE O – COMMITMENTS AND CONTINGENCIES – CONTINUED

3. Lease Agreements - Continued

Years ending June 30,

2010	\$	135,644
2011		59,130
2012		17,140
2013		664
		<u>664</u>
	\$	<u>212,578</u>

Total lease expense for 2009 is \$114,351.

4. Non-Covered Entities

During May 2006, NMRHCA staff and counsel discovered that a certain covered entity may not have statutory basis for membership in NMRHCA and therefore its inclusion could be not lawful. Additionally, there may be two more covered entities not lawfully participating. This contingency existed at June 30, 2009 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, 2009:

	Benefits 38100 From (To)	Administration 38000 From (To)
	<u> </u>	<u> </u>
Total appropriations	\$ 2,839,800	\$ (2,839,800)
Additional transfer amount per OPUD 3	22,100	(22,100)
Reversion	<u>(176,931)</u>	<u>176,931</u>
	<u>\$ 2,684,969</u>	<u>\$ (2,684,969)</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE Q – APPROPRIATIONS, BUDGET ADJUSTMENTS AND REVERSIONS

NMRHCA submits annually for approval an Administrative Budget Request, as part of the operating budget. The Department of Finance and Administration and the Legislative Finance Committee (LFC) reviews the request and the Legislature 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.

NMRHCA recorded a \$2,839,800 appropriation from the Benefits Fund to the Administration Fund for Fiscal Year 2009 (Laws 2008, Chapter 3, Section 4). \$154,831 is accrued for reversion for Fiscal Year 2009 to the Benefits Fund. A \$9,700 State General Fund appropriation was made to the Discount Prescription Drug Program for Fiscal Year 2009 (Laws 2008, Chapter 3, 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 Card program is non-reverting fund. 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. Accounts receivable also includes amounts to be received for Medicare Part D. There is no allowance for uncollectible receivables recorded at June 30, 2009, as management deems any uncollectible amounts as immaterial.

NOTE S – BUY-IN OBLIGATION RECEIVABLE

As of June 30, 2009, buy-in receivables include the following:

New Mexico Retiree Health Care Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE S – BUY-IN OBLIGATION RECEIVABLE – CONTINUED

City of Rio Rancho	\$ 853,093
City of Roswell	261,497
City of Espanola	238,251
County of Lincoln	209,194
City of Bloomfield	122,498
City of Portales	84,500
Town of Edgewood	38,875
City of Aztec	35,464
T or C Housing Authority	3,844
Village of Melrose	<u>3,696</u>
	<u>\$ 1,850,912</u>

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

Current portion	\$ 288,907
Long-term	<u>1,562,005</u>
	<u>\$ 1,850,912</u>

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

Management has evaluated subsequent events through December 1, 2009, the date which financial statements were available to be issued. The following matter was deemed significant for disclosure.

After a very tough 2009 investment market, significant increases in fair value occurred the latter part of 2009 in securities markets. Fair value estimates for securities are currently volatile, difficult to predict, and subject to material changes that could affect NMRHCA's financial condition and results of operation in the future.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE V – PRIOR PERIOD ADJUSTMENT

The Authority recorded accounts receivable for FY 2009 for Medicare Part D and for the Drug Prescription Rebate program on an estimated basis. Receipts for Medicare Part D meet all the eligibility criteria for recording balances on the accrual basis. Receipts for the Drug Prescription Rebate program may occur significantly after year-end but activity relating to periods before June 30, 2009 can be reasonably estimated. Beginning net assets was increased for corresponding estimated accounts receivables for these programs at June 30, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

New Mexico Retiree Health Care Authority

SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

June 30, 2009

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%					

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 (UNAUDITED) - CONTINUED

June 30, 2009

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 FY 2011 for most employees. HB 351 also increased employer and employee contribution rates from 1.95% to 3.75% over 3 years, beginning in FY 2011 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 NMRHCA.

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

New Mexico Retiree Health Care Authority

**SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS
AND OTHER CONTRIBUTING ENTITIES (UNAUDITED)**

June 30, 2009

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	96,816,528	33.8%

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

1. The Authority obtained its second actuarial valuation as of June 30, 2008. Generally accepted accounting principles require data from a minimum of three 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	96,816,528	194,653,371	688,911,370

(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, 2009

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Eliminations	Total
ASSETS					
Short-term investments with State Treasurer	\$ 15,946,991	\$ 1,233,978	\$ 13,967	\$ -	\$ 17,194,936
Receivables					
Accounts receivable - employers, employees and participants	8,778,432	90	-	-	8,778,522
Accounts receivable - rebates and Medicare Part D	3,120,283	-	-	-	3,120,283
Buy-in obligation receivable	1,850,912	-	-	-	1,850,912
Pension tax receivable	1,239,748	-	-	-	1,239,748
Due from other funds	176,931	-	-	(176,931)	-
Total receivables	15,166,306	90	-	(176,931)	14,989,465
Long-term investments with State Investment Council					
Fixed income core bonds	52,613,844	-	-	-	52,613,844
Large cap - active	25,428,516	-	-	-	25,428,516
Large cap index	24,010,899	-	-	-	24,010,899
Non US equities	22,957,428	-	-	-	22,957,428
Emerging markets	5,760,369	-	-	-	5,760,369
Mid/small cap	5,703,696	-	-	-	5,703,696
Total investments	136,474,752	-	-	-	136,474,752
Capital assets					
Equipment and furniture	-	671,483	-	-	671,483
Less accumulated depreciation	-	(638,639)	-	-	(638,639)
Total capital assets	-	32,844	-	-	32,844
Total assets	<u>\$ 167,588,049</u>	<u>\$ 1,266,912</u>	<u>\$ 13,967</u>	<u>\$ (176,931)</u>	<u>\$ 168,691,997</u>
LIABILITIES					
Short-term investment overdraft	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	10,140,905	117,836	-	-	10,258,741
Due to other funds	-	176,931	-	(176,931)	-
Due to General fund	-	-	-	-	-
Due to other governments	29,003	-	-	-	29,003
Payroll liabilities	-	74,680	-	-	74,680
Compensated absences	-	75,688	-	-	75,688
Deferred revenue	326,517	-	-	-	326,517
Reserve for loss and loss adjustment expense	11,713,000	-	-	-	11,713,000
Total liabilities	22,209,425	445,135	-	(176,931)	22,477,629
PLAN NET ASSETS	<u>145,378,624</u>	<u>821,777</u>	<u>13,967</u>	<u>-</u>	<u>146,214,368</u>
Total liabilities and plan net assets	<u>\$ 167,588,049</u>	<u>\$ 1,266,912</u>	<u>\$ 13,967</u>	<u>\$ (176,931)</u>	<u>\$ 168,691,997</u>

New Mexico Retiree Health Care Authority

**COMBINING SCHEDULE OF CHANGES IN PLAN NET ASSETS
BY FUNCTIONAL ACTIVITY**

June 30, 2009

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Eliminations	Total
ADDITIONS					
Contributions					
Retiree	\$ 91,045,133	\$ -	\$ -	\$ -	\$ 91,045,133
Employer/employee	79,093,213	-	-	-	79,093,213
Employer buy-ins	90,780	-	-	-	90,780
Employer buy-ins interest portion	142,224	-	-	-	142,224
Total contributions	170,371,350	-	-	-	170,371,350
Investment earnings					
Interest	104,932	75,068	-	-	180,000
Net (decrease) in fair value of investments	(34,262,328)	-	-	-	(34,262,328)
Total net investment (deficit) earnings	(34,157,396)	75,068	-	-	(34,082,328)
Other additions					
Pension tax revenue	15,126,981	-	-	-	15,126,981
Medicare Part D	11,362,929	-	-	-	11,362,929
Rebates	5,997,652	799	-	-	5,998,451
Subrogation reimbursements	150,587	-	-	-	150,587
Refunds and miscellaneous	14,690	-	-	-	14,690
State general fund appropriation	-	-	9,700	-	9,700
Total other additions	32,652,839	799	9,700	-	32,663,338
Total additions	168,866,793	75,867	9,700	-	168,952,360
DEDUCTIONS					
Premiums and claims	193,516,497	-	-	-	193,516,497
General and administrative expenses	-	2,684,969	5,703	-	2,690,672
Depreciation	-	10,676	-	-	10,676
Losses and loss adjustment expenses	(4,359,000)	-	-	-	(4,359,000)
Total deductions	189,157,497	2,695,645	5,703	-	191,858,845
Transfer (out) in, net	(2,684,969)	2,684,969	-	-	-
Change in plan net assets	(22,975,673)	65,191	3,997	-	(22,906,485)
Plan net assets, beginning of year as previously reported	165,858,071	756,586	9,970	-	166,624,627
Prior period adjustment (Note V)	2,496,226	-	-	-	2,496,226
Plan net assets, beginning of year, restated	168,354,297	756,586	9,970	-	169,120,853
Plan net assets, end of year	\$ 145,378,624	\$ 821,777	\$ 13,967	\$ -	\$ 146,214,368

New Mexico Retiree Health Care Authority

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

For the year ended June 30, 2009

	Fund 38100			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Retiree contributions	\$ 106,806,600	\$ 106,806,600	\$ 91,045,133	\$ (15,761,467)
Employer/employee contributions	72,823,400	72,823,400	79,326,217	6,502,817
Pension taxes	11,877,000	11,877,000	15,126,981	3,249,981
Investment income	153,000	153,000	104,932	(48,068)
Prescription rebate revenue	12,083,100	12,083,100	17,525,858	5,442,758
Total revenues	203,743,100	203,743,100	203,129,121	(613,979)
NET ASSET BALANCE BUDGETED	-	-	-	-
EXPENSES				
Personal services/employee benefits	-	-	-	-
Contractual services	200,881,200	200,881,200	193,516,497	7,364,703
Total expenses	200,881,200	200,881,200	193,516,497	7,364,703
TRANSFERS				
Transfers in - Intra agency from SHARE 38000	-	-	176,931	176,931
Transfers out - Intra agency to SHARE 38000	(2,861,900)	(2,861,900)	(2,861,900)	-
Total transfers			(2,684,969)	
Net change in net assets			6,927,655	
Loss on investments			(34,262,328)	
Change in IBNR liability			4,359,000	
Change in plan net assets, GAAP basis			\$ (22,975,673)	

New Mexico Retiree Health Care Authority

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

For the year ended June 30, 2009

	Fund 38000			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Employer/employee contributions	\$ -	\$ -	\$ -	\$ -
Pension taxes	-	-	-	-
Investment income	-	-	75,068	75,068
Other financial sources	-	-	799	799
Total revenues	-	-	75,867	75,867
EXPENSES				
Personal services/employee benefits	1,656,300	1,656,300	1,574,276	82,024
Contractual services	555,600	555,600	508,915	46,685
Other financial uses	-	-	-	-
Other	650,000	650,000	601,778	48,222
Total expenses	2,861,900	2,861,900	2,684,969	176,931
TRANSFERS				
Transfers in - Intra agency from SHARE 38100	2,861,900	2,861,900	2,861,900	-
Transfers out - Intra agency to SHARE 38100	-	-	(176,931)	176,931
Total transfers	2,861,900	2,861,900	2,684,969	176,931
Net change in net assets			75,867	
Depreciation			(10,676)	
Change in plan net assets, GAAP basis			\$ 65,191	

New Mexico Retiree Health Care Authority

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

For the year ended June 30, 2009

	Fund 81000			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Employer/employee contributions	\$ -	\$ -	\$ -	\$ -
Pension taxes	-	-	-	-
Investment income	-	-	-	-
General fund appropriation	10,000	10,000	9,700	(300)
Total revenues	10,000	10,000	9,700	(300)
EXPENSES				
Personal services/employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other financial uses	-	-	-	-
Other	10,000	10,000	5,703	4,297
Total expenses	10,000	10,000	5,703	4,297
Net change in net assets			3,997	
State general fund reversion expense			-	
Change in plan net assets, GAAP basis			\$ 3,997	

OTHER SUPPLEMENTARY INFORMATION

New Mexico Retiree Health Care Authority

**COMBINING SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
BY FUNCTIONAL ACTIVITY**

June 30, 2009

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Total
GENERAL AND ADMINISTRATIVE EXPENSES				
Personal services	\$ -	\$ 1,108,740	\$ -	\$ 1,108,740
Contractual services	-	508,915	-	508,915
Employee benefits	-	465,536	-	465,536
Operating costs	-	500,857	5,703	506,560
In-state travel	-	46,030	-	46,030
Supplies	-	40,858	-	40,858
Repairs and maintenance	-	10,365	-	10,365
Out-of-state travel	-	3,668	-	3,668
Total	\$ -	\$ 2,684,969	\$ 5,703	\$ 2,690,672

New Mexico Retiree Health Care Authority

COMBINING SCHEDULE OF SHORT-TERM INVESTMENTS

For the year ended June 30, 2009

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Total
Investment balances per DFA-				
New Mexico State Treasurer				
Share Fund 34300-38000	\$ -	\$ 1,233,978	\$ -	\$ 1,233,978
Share Fund 34300-38100	15,946,991	-	-	15,946,991
Share Fund 34300-83600	-	-	-	-
Share Fund 34300-81000	-	-	13,967	13,967
Reconciling items - none	-	-	-	-
	<u>\$ 15,946,991</u>	<u>\$ 1,233,978</u>	<u>\$ 13,967</u>	<u>\$ 17,194,936</u>

New Mexico Retiree Health Care Authority

SCHEDULE OF APPROPRIATIONS

For the year ended June 30, 2009

Description	Authority	Appropriation Period	Share Fund	Total Appropriation	Current Year Expenditures	Current Year Reversion Amount
Program support for Administrative Fund	Laws 2008 House Bill 2, Chapter 33, Section 4	2009	38000	\$ 2,861,900	\$ 2,684,969	\$ 176,931
General Fund appropriation for Senior Prescription Drug Program	Laws 2008 House Bill 2, Chapter 33, Section 4	2009	81000	\$ 9,700	\$ 5,703	\$ - nonreverting

According to 10-7C-16 NMSA 1978, funds to administer the New Mexico 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.



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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 accompanying statement of plan net assets and statement of changes in plan net assets of the New Mexico Retiree Health Care Authority (NMRHCA or Authority) as of and for the year ended June 30, 2009 as listed in the table of contents. We have also audited the combining schedule of plan net assets and changes in plan net assets by functional activity and the schedule of revenues and expenses – budget and actual presented as supplementary information as of and for the year ended June 30, 2009 as listed in the table of contents, and have issued our report thereon dated December 1, 2009. 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.

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.

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 accounting principles generally accepted in the United States of America 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.

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

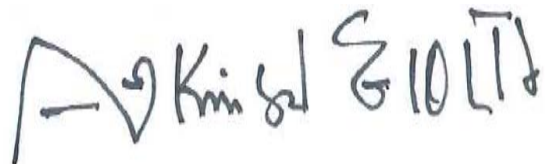
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 and 08-03.

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 responses 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 the State Auditor, and the New Mexico Legislature, and the Department of Finance and Administration and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink, appearing to read "King & Co. Ltd." with a stylized logo to the left.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 1, 2009

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2009

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

INTERNAL CONTROL OVER FINANCIAL REPORTING

Material weaknesses identified? No

Significant deficiencies identified not considered
to be material weaknesses? No

COMPLIANCE AND OTHER MATTERS

Noncompliance material to the financial statements noted? No

FINANCIAL STATEMENT FINDINGS

None

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC

- 08-01 – PROFESSIONAL CONTRACTS EXPIRED WITHOUT PROPERLY EXTENDING THE CONTRACT (REPEATED AND MODIFIED)
- 08-03 – PAYROLL AND PAYROLL RELATED LIABILITIES (REPEATED AND MODIFIED)

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2009

RESOLUTION OF PRIOR YEAR FINDINGS

- 07-05 Late submission of audit report (Significant Deficiency) – Resolved
- 07-06 Capital assets not properly tracked (Significant Deficiency) – Resolved
- 08-01 Professional contracts expired without properly extending the contract – Repeated and modified
- 08-02 Draft meeting minutes were not timely prepared – Resolved
- 08-03 Payroll and payroll related liabilities (Significant Deficiency) – Repeated and modified
- 08-04 Reversion for SHARE fund 81000 was not remitted – Resolved
- 08-05 Audit adjustments (Material Weakness) – Resolved
- 08-06 Receipts held in suspense (Significant Deficiency) – Resolved
- 08-07 Database information is not properly updated – Resolved

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2009

CURRENT YEAR AUDIT FINDINGS

08-01 PROFESSIONAL CONTRACTS EXPIRED WITHOUT PROPERLY EXTENDING THE CONTRACT (REPEATED AND MODIFIED)

Condition

The Authority allowed one service contract with the Discount Prescription Drug Program (DPDP) to expire during 2008. A contract amendment involving an increase to the scope of work was not finalized during 2009. 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 rendered 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. A Request for Proposal for a consultant to assist in the proposal process for the Pharmaceutical Benefits Manager (PBM) services was initiated in June 2009. The process is now complete, PBM request for proposal is to be issued December 14, 2009 for a contract effective date of July 1, 2010.

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2009

08-03 PAYROLL AND PAYROLL RELATED LIABILITIES (REPEATED AND MODIFIED)

Condition

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

- a. The employee's timesheet was not approved in 4 out of 30 tested items where it was required.

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 2008 and part of 2009, 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

At the first part of the year, during which time the Authority did not have an employee dedicated to human services, employee employment records were not complete and in full compliance with state and federal requirements.

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. It is noted that subsequent to management's hiring of a human resources employee, no exceptions were found on tested payroll and related files.

Management's Response

The human resources position was vacant at the beginning of the fiscal year until filled in late November 2008. The agency's new management for FY 2009 recognized that it was necessary to have an employee dedicated to personnel and payroll, and, therefore, pursued position reclassification, posting and selection, processes which take time. As the discussion above by the auditors indicates, no exceptions were found subsequent to the filling of the position. A number of tasks were aggressively executed with the filling of the human resources position to address potential weaknesses, including but not limited to: 1) ascertaining requirements, including for record-keeping, mandated by state and federal regulations and laws; 2) establishing new record-keeping systems; 3) ensuring proper completion and submission of timesheets; and 4) performing various checks and internal audits to ensure completeness, compliance and integrity of records. Management is confident that full compliance is being met.

New Mexico Retiree Health Care Authority

EXIT CONFERENCE

June 30, 2009

An exit conference was held on December 10, 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

Rudy M. Bantista, Communications Secretary

Bill Walsh, Deputy Director

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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