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

**NEW MEXICO RETIREE
HEALTH CARE AUTHORITY**

June 30, 2011

atkinson

PRECISE. PERSONAL. PROACTIVE.

New Mexico Retiree
Health Care Authority

OFFICIAL ROSTER

June 30, 2011

Board of Directors

Alfredo Santistevan, Board Chair	Designee of NM State Treasurer
Tom Sullivan, Vice-Chairman	Superintendents' Association of NM
Joe Montano, Secretary	NM Association of Educational Retirees
Marilyn Brown	NEA-NM, Classroom Teachers Association and NM Federation of Educational Employees
Jan Goodwin	Educational Retirement Board
Elizabeth Jeffreys	Active State Employee Office of the General Counsel Human Services Department
James B. Lewis	NM State Treasurer
Dan Mayfield	NM Association of Counties
Olivia Padilla-Jackson	NM Municipal League
Jeff Varela	Retired Public Employees of New Mexico
Kurt Weber	Public Employees Retirement Association

Staff

Wayne Propst	Executive Director
Bill Walsh*	Deputy Director
Mark Tyndall	Deputy Director
Sara Brownstein, CFE	Fiscal Director

*Resigned effective March 2011

CONTENTS

	<u>Page</u>
OFFICIAL ROSTER	i
CONTENTS	ii-iii
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3-9
FINANCIAL STATEMENTS	
STATEMENT OF PLAN NET ASSETS – EXHIBIT 1	10
STATEMENT OF CHANGES IN PLAN NET ASSETS – EXHIBIT 2	11
NOTES TO FINANCIAL STATEMENTS	12-32
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF FUNDING PROGRESS (UNAUDITED)	33-34
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES (UNAUDITED)	35
SUPPLEMENTARY INFORMATION	
COMBINING SCHEDULE OF PLAN NET ASSETS BY FUNCTIONAL ACTIVITY – SCHEDULE 1	36
COMBINING SCHEDULE OF CHANGES IN PLAN NET ASSETS BY FUNCTIONAL ACTIVITY – SCHEDULE 2	37
SCHEDULE OF REVENUES AND EXPENSES – BUDGET AND ACTUAL (ACCRUAL BUDGET BASIS) – SCHEDULE 3	38-40
OTHER SUPPLEMENTARY INFORMATION	
COMBINING SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES BY FUNCTIONAL ACTIVITY – SCHEDULE 4	41
COMBINING SCHEDULE OF SHORT-TERM INVESTMENTS – SCHEDULE 5	42
SCHEDULE OF APPROPRIATIONS – SCHEDULE 6	43

C O N T E N T S C O N T I N U E D

Page

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 44-45

SCHEDULE OF FINDINGS AND RESPONSES 46-47

EXIT CONFERENCE 48



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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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, 2011 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, 2011 as listed in the table of contents. These financial statements and schedules are the responsibility of the New Mexico Retiree Health Care Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

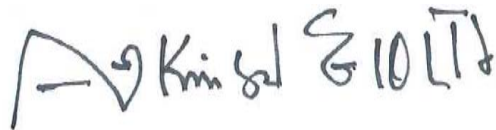
As discussed in Note A, the financial statements of the New Mexico Retiree Health Care Authority are intended to present the net assets and changes in net assets of only that portion of the fiduciary activities of the State of New Mexico that is attributable to the transactions of the New Mexico Retiree 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, 2011, 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, 2011, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles. 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, 2011, the respective changes in financial position thereof and the respective budgetary comparisons for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2011, 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 9 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 U.S. generally accepted accounting principles. 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.

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 flourish on the left side.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 1, 2011

New Mexico Retiree Health Care Authority

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

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

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, 2011. As of this date, the Authority provided health coverage for approximately 45,300 retirees and their dependents. Data for FY 2010 is provided for comparative purposes. The financial statement elements do not differ greatly from those presented in prior years.

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 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 2010; the next evaluation will be for FY 2012.

CONDENSED STATEMENT OF ASSETS AND LIABILITIES

The Authority's assets, liabilities and net assets can be summarized as follows as of June 30, 2011 and 2010 (please note that the Authority has no long-term liabilities):

	2011	2010
Cash and cash equivalents	\$ 17,693,534	\$ 10,645,713
Accounts receivable	14,838,254	12,962,098
Buy-in obligation receivable	1,295,469	1,582,015
Other current assets	1,491,540	1,358,518
Investments	213,379,925	156,473,010
Property and equipment, net	41,452	17,940
Accrued interest receivable	4,573	-
Due from other governments	1,553	1,975
Total assets	<u>\$ 248,746,300</u>	<u>\$ 183,041,269</u>

New Mexico Retiree Health Care Authority

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

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

CONDENSED STATEMENT OF ASSETS AND LIABILITIES – CONTINUED

	<u>2011</u>	<u>2010</u>
Reserve for loss and loss adjustment	\$ 13,743,000	\$ 8,273,000
Deferred revenue	6,375,063	398,469
Other current liabilities	<u>15,244,698</u>	<u>6,812,940</u>
Total liabilities	35,362,761	15,484,409
Net assets:		
Invested in capital assets	41,452	17,940
Held for health care benefits	<u>213,342,087</u>	<u>167,538,920</u>
Total plan net assets	<u>213,383,539</u>	<u>167,556,860</u>
Total liabilities and plan net assets	<u>\$ 248,746,300</u>	<u>\$ 183,041,269</u>

CONDENSED STATEMENT OF CHANGES IN NET ASSETS

	<u>2011</u>	<u>2010</u>
Contributions and other revenue	\$ 213,022,312	\$ 188,955,649
Investment income	33,786,044	20,034,335
Pension tax revenue	17,898,485	16,302,219
State general fund appropriation	<u>-</u>	<u>10,000</u>
Total additions	264,706,841	225,302,203
All operating expenses relating to premiums and claims	<u>218,880,162</u>	<u>203,959,711</u>
Change in plan net assets	<u>\$ 45,826,679</u>	<u>\$ 21,342,492</u>

New Mexico Retiree Health Care Authority

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

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

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

	<u>2011</u>	<u>2010</u>
Retirees	\$ 96,816,526	\$ 90,208,837
Employer	66,707,635	52,297,172
Employee	33,354,068	26,168,202
Employer buy-ins interest portion	<u>105,559</u>	<u>115,799</u>
	<u>\$ 196,983,788</u>	<u>\$ 168,790,010</u>

Revenues from employer buy-ins are accrued in full upon entry into the Authority. There were no employers who entered the plan during 2011.

COMMENTARY

NMRHCA plan net assets increased from \$167.6 million in FY 2010 to \$213.4 million in FY 2011.

- The cash balance increased by \$7 million. The cash balance increase is primarily due to the Early Retirement Reinsurance Program funds received through the Affordable Health Care Act.
- Investment holdings increased by \$56.9 million (36.4%). The cause was the stock market recovery for the category performance of Large Cap Active, Core Bonds, Large Cap Index, and Non US Developed, Non US Emerging and Mid/Small Cap categories and contributions from the overnight cash fund of approximately \$23 million.
- Outstanding current liabilities increased by \$8.4 million in FY 2011. The increase was primarily due to outstanding accounts payable due at June 30, 2011.
- Expenditures relating to premiums and claims increased by \$6.1 million, or 4%. The increase was due to an increase in NMRHCA health care claim costs.
- The estimated Incurred but Not Reported (IBNR) amount increased by \$5.5 million (66%) in FY 2011. The increase was due to the inability, in FY 2010, to calculate an IBNR amount due to the change of PBM vendor effective July 1, 2011. Additionally, given immature Medicare Supplement claims data, prior IBNR per member per year was used to estimate June 30, 2011 IBNR. This estimate was omitted in the June 30, 2010 IBNR.

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

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

BUDGETARY ANALYSIS

The FY 2011 approved budget was \$220.7 million. It assumed a contractual services budget of \$217.9 and \$2.7 in other financing sources. Actual expenditures were \$216.3 million for contractual services and \$2.6 million in other financing sources. Actual revenues were \$230.9 million. Highlights are the following:

- No increase in budget authority was requested.
- There was a \$44.6 million positive differential between expenditures and revenue.
- Program support was \$158,194 under budget.

CAPITAL ASSET ACTIVITY

The Authority had three asset additions for FY 2011, which were for furniture and fixtures, computer software and equipment. 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 employees 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").

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

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS – CONTINUED

In FY 2011, the NMRHCA enacted the first phase-in of a significant increase in the employer/employee contribution revenue stream. The contribution levels for FY 11 were 1.666% for the employer and 0.833% for the employee. As a result of legislation passed during the 2009 session and signed by the Governor, over the next two years, the employer/employee contributions will increase to 2% for the employer and 1% for the employee.

In July 2010, the NMRHCA Board of Directors approved moderate changes in the medical plans. Beginning in January of 2012, premiums for the pre-Medicare plans will be increased by 8% and the Medicare Supplement plans will be increased by 6%. Medicare Advantage premiums were increased by an average of 2%, due in part to changes mandated by the new national health reform legislation. NMRHCA will no longer offer basic life insurance for new participants who join NMRHCA after December 31, 2011. However, the Authority will continue to offer a comprehensive life insurance policy to individuals who retire after that date.

Based on the GASB Statement 43 valuation of FY 2010, 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 \$3.3 billion. The ARC is approximately \$326.9 million. Both the UAAL and the ARC are slightly higher than the 2008 evaluation. An underlying reason for this is that PERA and ERB updated its assumptions with respect to the number of future retirees and in addition, PERA adjusted its retirement age assumptions for a number of categories of workers based upon a recently completed analysis. However, approximately 80% of the additional liability (over \$316 million) is the result of interest accrued on the \$2.9 billion unfunded liability from 2008.

The annual solvency analysis performed by Segal actuaries in June 2011 indicates NMRHCA is solvent at least through 2027; a marked improvement considering just five years ago calculations indicated NMRHCA could be insolvent as early as 2014. Insurance plan design changes, premium subsidy adjustments, the increases in the EE/ER revenue stream and suspense fund contribution, increasing returns on investments, and an 8% market trend annual premium adjustment were the primary causes of this improved outlook.

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

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS – CONTINUED

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 2011, a number of financial management improvements were put in place. A monthly cash flow management analysis was executed. Payment processes to partner insurance companies were improved. An initiative to better track the timeliness and accuracy of the employer/employee contribution revenue stream was implemented.

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.

State Revenue Problems

Continuing tax revenue shortfalls in New Mexico could have a significant and negative impact on the solvency and financial position of the Authority in the intermediate term. 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 2012 or in the foreseeable future, and it is possible that payroll growth will be negative. A 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. Despite the 2010 legislated changes in the EE/ER contribution levels and the many steps taken to increase cost sharing with the retirees, it will be challenging to maintain the rolling 15 year solvency goal of the Board of Directors. Continued market fluctuations could also negatively impact both the Authority's solvency projections and UAAL.

Investment Fees

NMRHCA investment account is charged investment fees calculated by the State Investment Council (SIC). During FY 2011, NMRHCA has requested detailed information from the SIC regarding the calculation of these fees. As of the date of this report, NMRHCA has received a general description of how the fees are calculated. In an effort to ensure that the fees charged by the SIC are calculated properly, NMRHCA is currently still waiting on a more detailed response from the SIC.

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

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS – CONTINUED

Pre-Funding of Future Retiree Medical Expenditures

The FY 11 increase in employer/employee contributions has enabled the Authority to increase its investment fund reserve for future retiree claims expenditures. Nevertheless, funds collected annually by NMRHCA will continue to be utilized for the purpose of meeting annual claims and program support requirements for existing retirees. The Authority's current 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 a sustainable benefit, NMRHCA needs to increase on a continuing basis the investment reserve fund balance through identification of new revenue sources, additional increases to existing revenue sources, and further changes to benefit structures and premium subsidy policies.

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 and the Health Research and Educational Trust Annual Employer Health Benefits survey, the average annual premium in 2010 for family coverage was \$13,770. This was an increase of 128% since 1999.

National health reform legislation was enacted on March 21, 2010 aimed at extending coverage to 30 million uninsured Americans by 2014. It also aims to reduce health care cost growth through increased health insurance regulation, and successful delivery system demonstration projects that are subsequently rolled out nationwide.

Its impact on NMRHCA to date has not been substantial. Positives include a temporary limited retiree national reinsurance program; enhanced prevention benefits in Medicare; a \$250 payment to some retirees participating in Medicare Part D plans for prescription drug costs, and elimination of preexisting medical conditions as a basis for not providing coverage.

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, 2011

ASSETS

Short-term investments with State Treasurer	\$ 17,693,534
Receivables	
Accounts receivable - employers, employees and participants	10,368,918
Accounts receivable - rebates and Medicare Part D	4,469,336
Buy-in obligation receivable	1,295,469
Pension tax receivable	1,491,540
Accrued interest receivable	4,573
Due from other governments	<u>1,553</u>
Total receivables	17,631,389
Long-term investments with State Investment Council	
Fixed income core bonds	73,235,011
Large cap - active	33,147,629
Large cap index	29,974,935
Non US equities	29,235,982
Emerging markets	26,163,668
Mid/small cap	<u>21,622,700</u>
Total investments	213,379,925
Capital assets	
Furniture and equipment	139,506
Less accumulated depreciation	<u>(98,054)</u>
Total capital assets	<u>41,452</u>
Total assets	<u>\$ 248,746,300</u>

LIABILITIES

Short-term investment overdraft	\$ 56,991
Accounts payable	15,061,103
Payroll liabilities	52,687
Compensated absences	73,917
Deferred revenue	6,375,063
Reserve for loss and loss adjustment expense	<u>13,743,000</u>
Total liabilities	35,362,761
Commitments and contingencies	-
Invested in capital assets	41,452
Plan net assets held in trust for other post employment benefits, restricted	<u>213,342,087</u>
Total liabilities and plan net assets	<u>\$ 248,746,300</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, 2011

ADDITIONS

Contributions	
Retirees	\$ 96,816,526
Employer	66,707,635
Employees	33,354,068
Employer buy-ins interest portion	<u>105,559</u>
Total contributions	196,983,788
Investment earnings	
Net increase in fair value of investments	33,745,668
Interest on short-term investments with state treasurer	<u>40,376</u>
Total net investment earnings	33,786,044
Other additions	
Pension tax revenue	17,898,485
Medicare Part D and rebates	15,386,960
Subrogation, refunds and miscellaneous	<u>651,564</u>
Total other additions	<u>33,937,009</u>
Total additions	264,706,841
DEDUCTIONS (ADDITIONS)	
Premiums and claims	210,804,943
General and administrative expenses	2,598,306
Depreciation expense	6,913
Losses and loss adjustment accrual increase	<u>5,470,000</u>
Total deductions	<u>218,880,162</u>
Change in plan net assets	45,826,679
Plan net assets, restricted, beginning of year	<u>167,556,860</u>
Plan net assets, restricted, end of year	<u>\$ 213,383,539</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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, 2011

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 serves at the pleasure of the party or parties that selected that member. The Board elects from its membership a president, vice president and secretary.

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 is an independent agency, not under executive control, however it 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

NOTE A – FINANCIAL REPORTING ENTITY – CONTINUED

Employer and employee contributions to NMRHCA total 2.499% for non-enhanced retirement plans and 3.126% of enhanced retirement plans 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 non-refundable under any circumstance, including termination of the employer's participation in the NMRHCA. New increased rates became effective on July 1, 2010.

Current retirees are required to make monthly contributions for individual basic medical coverage. The Board may designate other plans as "optional coverages." See section 10-7C-13.

The Authority has no component units.

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

1. Basis of Accounting

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

2. Program Revenue

Program revenue shown on the accompanying statement of changes in plan net assets consists primarily of contributions received from retirees, employers and employees including amounts received and accrued from employer buy-ins. Operating revenue is distinguished from non-operating revenue by considering the core purpose of 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, 2011

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. Non-interest bearing bank accounts are fully insured through December 31, 2012. 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 three to seven years for computer equipment.

5. Income Taxes

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. 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. One BAR was filed during 2011 reallocating expenditures from contractual services to other costs.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

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, 2011 and amounts due from retirees for monthly premiums. Deferred revenues consist of advance premiums paid by retirees prior to the coverage month and a federal advance as part of the Patient Protection and Affordable Care Act (PPACA).

Qualified employers previously declining participation may elect to buy-in under 10-7C-1 NMSA 1978. Upon meeting requirements and approval the organization will pay a determined amount to compensate the Authority and other participants for prior periods of nonparticipation and for additionally incurred liabilities. 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 plan 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 continual change.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

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

10. OPEB Actuarial Valuation

The Authority's OPEB program actuarial valuation was conducted by the Segal Company, Phoenix, Arizona, as of June 30, 2010. The valuation was performed in accordance with GASB Statement No. 43 and 45 requirements at the request of the Authority. The valuation is conducted every two years.

NOTE 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 standard applies to the New Mexico Retiree Health Care 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, 2011

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 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. The Authority 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. Available information in relation to plan membership is as follows for June 30, 2010 and 2008.

	<u>June 30, 2010</u>	<u>June 30, 2008</u>
Plan membership:		
Current retirees and surviving spouses	29,935	27,928
Inactive and eligible for deferred benefit	10,861	7,853
Current active members	<u>95,513</u>	<u>94,600</u>
	<u>136,309</u>	<u>130,381</u>
Active membership:		
State general	19,371	19,772
State police and corrections	1,801	1,765
Municipal general	18,747	20,348
Municipal police	3,233	3,214
Municipal FTRE	1,810	1,814
ERB	<u>50,551</u>	<u>47,687</u>
	<u>95,513</u>	<u>94,600</u>

New Mexico Retiree Health Care Authority

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

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	73%
June 30, 2010	176,922,935	3,523,664,871	3,346,741,936	5.02%	4,001,802,240	84%
Valuation date	June 30, 2010					
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, 2010					
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, 2018, decreasing by 0.5% for each year until it reaches an unlimited rate of 5%					

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%
July 1, 2009	297,999,753	112,079,300	37.6%
July 1, 2010	309,919,743	105,624,100	34.1%

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

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. NMRHCA has adopted GASB Statement No. 45 for the year ended June 30, 2009 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.

New Mexico Retiree Health Care Authority

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

NOTE C – GASB NO. 43 IMPLEMENTATION – CONTINUED

The following changes in assumptions were made for the year ended June 30, 2010:

This report was revised to incorporate an updated mortality, disability, turnover and salary scale and retirement assumptions were updated to reflect changes recommended in the most recent experience study.

Per capita costs and trends on these costs were 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, 2011 was \$73,917.

Balance as of June 30, 2010	Additions	Deletions	Balance as of June 30, 2011	Amount Due Within One Year
\$ 79,442	\$ 79,394	\$ 84,919	\$ 73,917	\$ 73,917

NOTE E – PROPERTY AND EQUIPMENT

A summary of furniture and equipment at June 30, 2011 is as follows:

CAPITAL ASSETS ROLLFORWARD				
Description	Balance at 6/30/2010	Additions	Deletions	Balance at 6/30/2011
Capital assets - furniture and equipment	\$ 191,130	\$ 30,425	\$ (82,049)	\$ 139,506

ACCUMULATED DEPRECIATION ROLLFORWARD				
Description	Balance at 6/30/2010	Additions	Deletions	Balance at 6/30/2011
Accumulated depreciation	\$ (173,190)	\$ (6,913)	\$ 82,049	\$ (98,054)

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

NOTE E – PROPERTY AND EQUIPMENT – CONTINUED

Depreciation expense was \$6,913 for the year ended June 30, 2011. All depreciation was allocated to the administrative function.

NOTE F – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT PLAN

1. Plan Description

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

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

2. Funding Policy

Plan members are required to contribute 8.92% (range from 4.0% to 16.65% 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 15.09% (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, 2011, 2010 and 2009 was \$179,753, \$195,981, and \$184,303, respectively, equal to the amount of the required contributions for each fiscal year.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

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 excluding IBNR balances relating to the approximately 27,955 retirees participating in the plan for the year ended June 30, 2011 consisted of:

Retiree/employer/employee contributions	\$ 196,878,229
Premiums and claims	<u>(210,804,943)</u>
Net expenditures	<u>\$ (13,926,714)</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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

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

Plan Description. The New Mexico Retiree Health Care Authority (NMRHCA), 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 employers, 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 benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

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

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

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

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. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee’s annual salary; each participating employee was required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013 the contribution rates for employees and employers will rise as follows:

(1) For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY12	1.834%	0.917%
FY13	2.000%	1.000%

(2) For employees who are members of an enhanced retirement plan (state police and adult correctional officer coverage plan 1; municipal police member coverage plans 3, 4, and 5; municipal fire member coverage plan 3, 4, and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978]), during the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 2.084% of each participating employee’s annually salary , and each participating employee was required to contribute 1.042% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013 the contributions rates for both employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY12	2.292%	1.146%
FY13	2.500%	1.250%

Employers joining the program after January 1, 1998 are required to make a surplus-amount contribution to the NMRHCA based on one of two formulas at agreed-upon intervals.

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

The NMRHCA’s contributions to the NMRHCA for the year ended June 30, 2011, 2010, and 2009 were \$19,699, \$15,746, and \$12,823, respectively which equal the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

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, 2011, 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, 2011. 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, 2010</u>	<u>Balance as of June 30, 2011</u>	<u>Current Portion</u>
Estimated Claims Liability	<u>\$ 8,273,000</u>	<u>\$ 13,743,000</u>	<u>\$ 13,743,000</u>

The increase in the estimated claims liability or “incurred but not reported reserve” (IBNR reserve) of \$5,470,000 was almost entirely attributable to the additions of the BCBS Medicare Plans to which claims data was not available as of June 30, 2010 because it is not calculated in years where the coverage was fully insured. The reason it was not calculated last fiscal year was because NMRHCA was fully insured with BCBS Medicare and as of July 1, 2010, NMRHCA became self-insured. The most recent number represents liability for outstanding claims for services rendered prior to July 1, 2011 and paid after June 30, 2011.

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) under which, NMSIC acts 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

NOTE J – JOINT POWERS AGREEMENTS – CONTINUED

The funds under management are 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 maintains 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.

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 to NMSIC's use of derivatives is not made available to NMRHCA. NMRHCA's investments were divided into pooled investments as follows at June 30, 2011.

New Mexico Retiree Health Care Authority

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

NOTE K – INVESTMENTS – CONTINUED

	<u>Fair Value</u>	<u>Units</u>
Fixed income core bonds	\$ 73,235,011	30,028
Non US equities	33,147,629	24,683
Emerging markets	29,974,935	5,817
Large cap - active	29,235,982	11,302
Large cap index	26,163,668	15,661
Mid/small cap	<u>21,622,700</u>	10,465
 Total	 <u>\$ 213,379,925</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 increase in the fair value of investments is as follows for the year ended June 30, 2011:

Fair value as of June 30, 2010	\$ 156,473,010
Add: Contributions	23,161,247
Add: Net market increases during fiscal year 2011	33,745,668
Less: Withdrawals	<u>-</u>
 Fair value as of June 30, 2011	 <u>\$ 213,379,925</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.

At the request of the Authority, the State Investment Council provided the investment fees of \$241,906 charged during the year ending June 30, 2011. Such fees are deducted from the ending investment account balance on a monthly basis in accordance with the joint powers agreement (See Note J.). The Authority has paid the fee and will validate the expense on receipt of a comprehensive accounting.

New Mexico Retiree Health Care Authority

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

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, 2011 is as follows:

Fund	SHARE Fund No.	Fair Value June 30, 2011
Benefits Fund	38100	\$ 17,676,646
Administrative Fund	38000	(56,991)
Discount Prescription Fund	81000	<u>16,888</u>
		<u>\$ 17,636,543</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, 2011.

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, 2011, the total revenue was \$17,898,485.

NOTE N – OPTIONAL COVERAGES

Beginning September 1, 1993, NMRHCA offered eligible retirees voluntary coverages: two dental plans, a vision plan, and supplemental life. 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. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

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 such 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 10-year period ending September 2020 with an option to renew for an additional 10 years. In Santa Fe, the Authority leases an office building at 810 S. Mateo. The Authority exercised the option to renew for an additional 5 years, resulting in a term date of September 30, 2015. 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 5-year lease and subsequent commitment under these leases is as follows:

Years ending June 30,		
2012		\$ 158,486
2013		142,927
2014		143,047
2015		143,784
2016		119,362
Thereafter		<u>477,198</u>
		<u>\$ 1,184,804</u>

Total lease expense for 2011 is \$158,405.

New Mexico Retiree Health Care Authority

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

NOTE P – OPERATING TRANSFERS

The following operating transfers occurred between the NMRHCA functional activities during the year ended June 30, 2011:

	Benefits 38100 <u>From (To)</u>	Administration 38000 <u>From (To)</u>
Total appropriations	\$ 2,756,500	\$ (2,756,500)
Reversion	<u>(158,194)</u>	<u>158,194</u>
	<u>\$ 2,598,306</u>	<u>\$ (2,598,306)</u>

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

NOTE Q – APPROPRIATIONS, BUDGET ADJUSTMENTS AND REVERSIONS

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 \$2,598,306 appropriation from the Benefits Fund to the Administration Fund for Fiscal Year 2011 (Laws 2010, Chapter 6, Section 4). An amount of \$158,194 is accrued for reversion for Fiscal Year 2011 to the Benefits Fund. No State General Fund appropriation was made to the Discount Prescription Drug Program for fiscal year 2011 (Laws 2010, Chapter 6, Section 4). 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

New Mexico Retiree Health Care Authority

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

NOTE R – ACCOUNTS RECEIVABLE – CONTINUED

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, 2011, as management deems any uncollectible amounts as immaterial.

NOTE S – BUY-IN OBLIGATION RECEIVABLE

As of June 30, 2011, buy-in receivables include the following:

City of Rio Rancho	\$	716,702
County of Lincoln		181,186
City of Espanola		157,679
City of Bloomfield		98,365
City of Roswell		94,144
City of Portales		45,407
Village of Melrose		1,986
		<u>1,986</u>
	<u>\$</u>	<u>1,295,469</u>

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

Current portion	\$	298,738
Long-term		996,731
		<u>996,731</u>
	<u>\$</u>	<u>1,295,469</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 investments pursuant to Section 6-8-1 through 6-8-16 NMSA 1978.

NOTE U – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 1, 2011 to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2011. Investment fair values were lower in the 3Q of 2011 but regained a significant percentage of their value by the date of these financial statements. Management believes no other material subsequent events have arisen that would require adjustment or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

New Mexico Retiree Health Care Authority

SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

June 30, 2011

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	73%
June 30, 2010	176,922,935	3,523,664,871	3,346,741,936	5.02%	4,001,802,240	84%
Valuation date	June 30, 2010					
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, 2010					
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, 2018, decreasing by 0.5% for each year until it reaches an unlimited rate of 5%					

FACTORS AFFECTING AMOUNTS AND TRENDS REPORTED

Three actuarial studies based on GASB 43 requirements have been completed and decreases are reported for the year ended June 30, 2010 in the UAAL and ARC. Factors in these reported increases are as follows:

- Changes in Composition of Active Membership** – The number of active members reported increased slightly based on consistent data received from PERA and ERB reporting databases for the third actuarial study.
- Changes in Per Capita Costs and Trends** – The PERA mortality, disability, turnover, salary scale and retirement assumptions were updated to reflect changes recommended in the most recent experience study. No changes were recommended in the ERB experience study. Per capita costs and trends on these costs were updated.

SCHEDULE OF FUNDING PROGRESS (UNAUDITED) – CONTINUED

June 30, 2011

NEW FACTORS FOR 2011 AND FUTURE YEARS

1. New 2010 Legislation

House Bill 854 (HB 854) – Enacts a two-year shift in retirement contributions. From July 1, 2009 to June 30, 2011, many ERB and PERA employees will contribute an additional 1.5% of earnings to PERA and ERB and employers will contribute 1.5% less to PERA and ERB. The change in contributions applies to any ERB or PERA employee earning \$20,000 or more per year. This new legislation has a neutral affect to the actuarial value of available assets.

New Mexico Retiree Health Care Authority

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

June 30, 2011

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%
July 1, 2009	297,999,753	112,079,300	37.6%
July 1, 2010	309,919,743	105,624,100	34.1%

The Authority will obtain its fourth actuarial evaluation in FY12.

SUPPLEMENTARY INFORMATION

New Mexico Retiree Health Care Authority

COMBINING SCHEDULE OF PLAN NET ASSETS BY FUNCTIONAL ACTIVITY

June 30, 2011

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Eliminations	Total
ASSETS					
Short-term investments with State Treasurer	\$ 17,676,646	\$ -	\$ 16,888	\$ -	\$ 17,693,534
Receivables					
Accounts receivable - employers, employees and participants	10,368,918	-	-	-	10,368,918
Accounts receivable - rebates and Medicare Part D	4,469,336	-	-	-	4,469,336
Buy-in obligation receivable	1,295,469	-	-	-	1,295,469
Pension tax receivable	1,491,540	-	-	-	1,491,540
Accrued interest income	4,573	-	-	-	4,573
Due from other governments	1,538	15	-	-	1,553
Due from other funds	158,194	-	-	(158,194)	-
Total receivables	17,789,568	15	-	(158,194)	17,631,389
Long-term investments with State Investment Council					
Fixed income core bonds	72,712,517	522,494	-	-	73,235,011
Non US equities	32,911,138	236,491	-	-	33,147,629
Emerging markets	29,761,080	213,855	-	-	29,974,935
Large cap - active	29,027,399	208,583	-	-	29,235,982
Large cap index	25,977,004	186,664	-	-	26,163,668
Mid/small cap	21,468,433	154,267	-	-	21,622,700
Total investments	211,857,571	1,522,354	-	-	213,379,925
Capital assets					
Equipment and furniture	-	139,506	-	-	139,506
Less accumulated depreciation	-	(98,054)	-	-	(98,054)
Total capital assets	-	41,452	-	-	41,452
Total assets	<u>\$ 247,323,785</u>	<u>\$ 1,563,821</u>	<u>\$ 16,888</u>	<u>\$ (158,194)</u>	<u>\$ 248,746,300</u>
LIABILITIES					
Short-term investment overdraft	\$ -	\$ 56,991	\$ -	\$ -	\$ 56,991
Accounts payable	14,889,150	171,953	-	-	15,061,103
Due to other funds	-	158,194	-	(158,194)	-
Payroll liabilities	-	52,687	-	-	52,687
Compensated absences	-	73,917	-	-	73,917
Deferred revenue	6,375,063	-	-	-	6,375,063
Reserve for loss and loss adjustment expense	13,743,000	-	-	-	13,743,000
Total liabilities	35,007,213	513,742	-	(158,194)	35,362,761
PLAN NET ASSETS	<u>212,316,572</u>	<u>1,050,079</u>	<u>16,888</u>	<u>-</u>	<u>213,383,539</u>
Total liabilities and plan net assets	<u>\$ 247,323,785</u>	<u>\$ 1,563,821</u>	<u>\$ 16,888</u>	<u>\$ (158,194)</u>	<u>\$ 248,746,300</u>

New Mexico Retiree Health Care Authority

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

For the year ended June 30, 2011

	<u>Benefits - 38100</u>	<u>Administration - 38000</u>	<u>Discount Prescription - 81000</u>	<u>Eliminations</u>	<u>Total</u>
ADDITIONS					
Contributions					
Retiree	\$ 96,816,526	\$ -	\$ -	\$ -	\$ 96,816,526
Employer/employee	100,061,703	-	-	-	100,061,703
Employer buy-ins interest portion	105,559	-	-	-	105,559
Total contributions	196,983,788	-	-	-	196,983,788
Investment earnings					
Net increase in fair value of investments	33,504,910	240,758	-	-	33,745,668
Interest	32,801	7,575	-	-	40,376
Total net investment earnings	33,537,711	248,333	-	-	33,786,044
Other additions					
Pension tax revenue	17,898,485	-	-	-	17,898,485
Medicare Part D and rebates	15,386,372	588	-	-	15,386,960
Subrogation, refunds and miscellaneous	651,564	-	-	-	651,564
Total other additions	33,936,421	588	-	-	33,937,009
Total additions	264,457,920	248,921	-	-	264,706,841
DEDUCTIONS					
Premiums and claims	210,804,943	-	-	-	210,804,943
General and administrative expenses	-	2,598,306	-	-	2,598,306
Depreciation	-	6,913	-	-	6,913
Losses and loss adjustment expenses	5,470,000	-	-	-	5,470,000
Total deductions	216,274,943	2,605,219	-	-	218,880,162
Transfer (out) in, net of reversion	(2,598,306)	2,598,306	-	-	-
Change in plan net assets	45,584,671	242,008	-	-	45,826,679
Plan net assets, beginning of year	166,731,901	808,071	16,888	-	167,556,860
Plan net assets, end of year	\$ 212,316,572	\$ 1,050,079	\$ 16,888	\$ -	\$ 213,383,539

New Mexico Retiree Health Care Authority

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

For the year ended June 30, 2011

	Fund 38100			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Retiree contributions	\$ 97,057,500	\$ 97,057,500	\$ 96,816,526	\$ (240,974)
Employer/employee contributions	89,275,300	89,275,300	100,167,262	10,891,962
Pension taxes	17,891,900	17,891,900	17,898,485	6,585
Investment income	102,700	102,700	32,801	(69,899)
Prescription rebate revenue	16,340,200	16,340,200	16,037,936	(302,264)
Total revenues	220,667,600	220,667,600	230,953,010	10,285,410
NET ASSET BALANCE BUDGETED	-	-	-	-
EXPENSES				
Personal services/employee benefits	-	-	-	-
Contractual services	217,911,100	217,911,100	210,804,943	7,106,157
Total expenses	217,911,100	217,911,100	210,804,943	7,106,157
TRANSFERS				
Transfers in - Intra agency from SHARE 38000	-	-	158,194	158,194
Transfers out - Intra agency to SHARE 38000	(2,756,500)	(2,756,500)	(2,756,500)	-
Total transfers	\$ (2,756,500)	\$ (2,756,500)	(2,598,306)	\$ 158,194
Net change in net assets			17,549,761	
Gain on investments excluding interest			33,504,910	
Change in IBNR liability			(5,470,000)	
Change in plan net assets, GAAP basis			\$ 45,584,671	

New Mexico Retiree Health Care Authority

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

For the year ended June 30, 2011

	Fund 38000			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Employer/employee contributions	\$ -	\$ -	\$ -	\$ -
Pension taxes	-	-	-	-
Investment income	-	-	7,575	7,575
Other financial sources	-	-	588	588
Total revenues	-	-	8,163	8,163
EXPENSES				
Personal services/employee benefits	1,713,900	1,713,900	1,654,557	59,343
Contractual services	498,200	438,200	400,012	38,188
Other financial uses	-	-	-	-
Other	544,400	604,400	543,737	60,663
Total expenses	2,756,500	2,756,500	2,598,306	158,194
TRANSFERS				
Transfers in - Intra agency from SHARE 38100	2,756,500	2,756,500	2,756,500	-
Transfers out - Intra agency to SHARE 38100	-	-	(158,194)	158,194
Total transfers	\$ 2,756,500	\$ 2,756,500	2,598,306	\$ 158,194
Net change in net assets			8,163	
Gain on investments excluding interest			240,758	
Depreciation			(6,913)	
Change in plan net assets, GAAP basis			\$ 242,008	

New Mexico Retiree Health Care Authority

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

For the year ended June 30, 2011

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

This fund was not budgeted for FY11

OTHER SUPPLEMENTARY INFORMATION

New Mexico Retiree Health Care Authority

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

June 30, 2011

	Benefits -	Administration -	Discount	Total
	38100	38000	Prescription - 81000	
GENERAL AND ADMINISTRATIVE EXPENSES				
Personal services	\$ -	\$ 1,189,147	\$ -	\$ 1,189,147
Employee benefits	-	465,410	-	465,410
Contractual services	-	400,012	-	400,012
Operating costs	-	380,151	-	380,151
Supplies	-	88,557	-	88,557
In-state travel	-	56,509	-	56,509
Repairs and maintenance	-	13,632	-	13,632
Out-of-state travel	-	4,888	-	4,888
Total	\$ -	\$ 2,598,306	\$ -	\$ 2,598,306

New Mexico Retiree Health Care Authority

COMBINING SCHEDULE OF SHORT-TERM INVESTMENTS

For the year ended June 30, 2011

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Total
Investment balances per DFA-				
New Mexico State Treasurer				
Share Fund 34300-38000	\$ -	\$ (56,991)	\$ -	\$ (56,991)
Share Fund 34300-38100	17,676,646	-	-	17,676,646
Share Fund 34300-83600	-	-	-	-
Share Fund 34300-81000	-	-	16,888	16,888
Reconciling items - none	-	-	-	-
	<u>\$ 17,676,646</u>	<u>\$ (56,991)</u>	<u>\$ 16,888</u>	17,636,543
Reclass to a liability				<u>56,991</u>
				<u>\$ 17,693,534</u>

New Mexico Retiree Health Care Authority

SCHEDULE OF APPROPRIATIONS

For the year ended June 30, 2011

Description	Authority	Appropriation Period	Share Fund	Total Appropriation	Current Year Expenditures	Current Year Reversion Amount
Program support for Administrative Fund	Laws 2009 House Bill 2, Chapter 124, Section 4	2011	38000	\$ 2,756,500	\$ 2,598,306	\$ 158,194
General Fund appropriation for Senior Prescription Drug Program	Laws 2009 House Bill 2, Chapter 124, Section 4	2011	81000	-	-	- 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 (38000). 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, 2011 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 Schedules of Revenues and Expenses – Budget and Actual presented as supplementary information as of and for the year ended June 30, 2011 as listed in the table of contents, and have issued our report thereon dated November 1, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

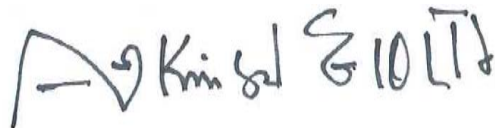
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 a certain matter that is 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 finding 10-01.

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

This report is intended solely for the information and use of management, others within the Authority, the Audit Committee, the Office of the State Auditor, 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 "Atkinson & Co., Ltd.", with a stylized flourish on the left side.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 1, 2011

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2011

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

None

RESOLUTION OF PRIOR YEAR FINDINGS

10-01 Timely remittance of deposits – Repeated and modified

10-02 Payroll compliance – Resolved

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2011

CURRENT YEAR AUDIT FINDINGS

10-01 TIMELY REMITTANCE OF DEPOSITS

Condition

The Authority receives checks, cashier's checks and money orders from various entities and individuals related to premiums, rebates, and fees received from customers on a walk-in basis. In 6 out of 20 items tested, the Authority made the deposit past the succeeding business day from the receipt of the monies. Generally, all out of compliance deposits were made within 2 to 3 days after receipt as opposed to within the 24 hour rule.

Criteria

According to 6-10-3 NMSA 1978, State agencies receiving money in cash or by check, draft or otherwise for or on behalf of the State or agency are required before the close of the next succeeding business day after the receipt of the money to deliver or remit it to the State Treasurer.

Cause

These untimely deposits are a residual effect before correcting the finding in the fiscal year 2010 financial statements. Since the finding was discovered and brought to management's attention, deposits appear to have been made timely indicating the Authority has corrected its process for making deposits in a timely manner according state statutes.

Effect

The Authority was not in compliance with New Mexico State Statutes for a portion of the year.

Recommendation

The Authority should take the necessary steps to ensure that monies received are deposited within the time requirements as noted in New Mexico State Statutes.

Management's Response

Management agrees with the finding. We understand that it is a statutory requirement that all checks received be deposited within the next succeeding business day. Management first became aware of this audit finding during the 2nd quarter of fiscal year 2011 and implemented the necessary procedures to ensure that all deposits were made in accordance with statute.

New Mexico Retiree Health Care Authority

EXIT CONFERENCE

June 30, 2011

An exit conference was held on October 31, 2011, 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, CGFM,
Audit Director

Jan Goodwin, Chairperson,
Audit Committee

Clarke Cagle, CPA, CCIFP,
Audit Senior Manager

Joe Montano, Secretary

Wayne Propst, Executive Director

Sara Brownstein, CFE, Chief Financial Officer

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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