



**NEW MEXICO RETIREE
HEALTH CARE AUTHORITY**

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

June 30, 2014

atkinson

PRECISE. PERSONAL. PROACTIVE.

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New Mexico Retiree Health Care Authority

OFFICIAL ROSTER

June 30, 2014

Board of Directors

| | |
|----------------------------|--|
| Tom Sullivan, Board Chair | Superintendents' Association of NM |
| Joe Montano, Vice-Chairman | NM Association of Educational Retirees |
| Doug Crandall, Secretary | Retired Public Employees of New Mexico |
| Marilynn Hill | Designee of NM State Treasurer |
| Wayne Propst | Public Employees' Retirement Association |
| Karen Sucher | NEA-NM, Classroom Teachers Association and AFT New Mexico |
| Jan Goodwin | Educational Retirement Board |
| Wayne Johnson | NM Association of Counties |
| Olivia Padilla-Jackson | NM Municipal League |
| Terry Linton | Governor Appointee |

Staff

| | |
|-----------------|-------------------------|
| Mark Tyndall | Executive Director |
| David Archuleta | Deputy Director |
| Debbie Vering | Chief Financial Officer |



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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ALBUQUERQUE, NM 87125

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

Report on the Financial Statements

We have audited the accompanying Statement of Plan Net Position and Statement of Changes in Plan Net Position for the fiduciary activities of the New Mexico Retiree Health Care Authority (NMRHCA or the Authority), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the New Mexico Retiree Health Care Authority's basic financial statements as listed in the table of contents. We have also audited the Combining Schedules of Plan Net Position by Functional Activity and Changes in Plan Net Position by Functional Activity and the Schedules of Revenues and Expenses – Budget and Actual by Functional Activity presented as supplementary information as of and for the year ended June 30, 2014 as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the combining financial statements and budgetary comparisons referred to above present fairly, in all material respects, the plan net position of the functional activities of NMRHCA as of June 30, 2014 and the respective changes in plan net position and respective budgetary comparisons by functional activity for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements of the New Mexico Retiree Health Care Authority are intended to present the net position and changes in net position 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, 2014, 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. Our opinion is not modified for this matter.

Other Matters

Required Supplementary Information

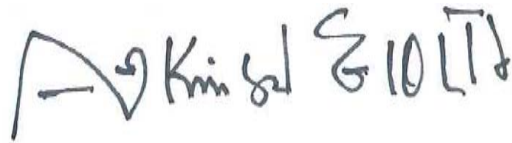
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 and the other post employment benefits schedules of funding progress and contributions from employers and other contributing entities on pages 35 and 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements, the combining schedules of plan net position and changes in plan net position by functional activity, and the budgetary comparisons by functional activity. The other supplementary information as listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 18, 2014

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

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

The New Mexico Retiree Health Care Authority (NMRHCA or the 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, 2014. As of this date, the Authority provided health coverage for approximately 55,881 retirees and their dependents. Data for FY13 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 is FY14.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as adopted by the Authority for the year ended June 30, 2013. It introduces a fundamental change to the reporting elements that make up the statement of financial position.
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, changes the classification of various financial statement balances including several more common type transactions to deferred outflows and inflows of resources for the year ending June 30, 2014. GASB 65 is applicable for years beginning after December 15, 2012 and was adopted by the Authority for the year ending June 30, 2014.

New Mexico Retiree Health Care Authority

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

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

CONDENSED STATEMENT OF ASSETS AND LIABILITIES

The Authority's assets, liabilities and net position can be summarized as follows as of June 30, 2014 and 2013 (please note that the Authority has no long-term liabilities):

| | <u>2014</u> | <u>2013</u> |
|---|---------------------------|---------------------------|
| Cash and cash equivalents | \$ 11,034,642 | \$ 28,347,836 |
| Accounts receivable | 17,062,279 | 12,544,888 |
| Buy-in obligation receivable | 638,932 | 763,255 |
| Other current assets | 1,994,889 | 1,808,002 |
| Investments | 381,447,460 | 272,562,555 |
| Property and equipment, net | 856,200 | 36,102 |
| Due from other governments | <u>1,185</u> | <u>9,665</u> |
| Total assets | <u>\$ 413,035,587</u> | <u>\$ 316,072,303</u> |
| | <u>2014</u> | <u>2013</u> |
| Reserve for loss and loss adjustment | \$ 19,098,000 | \$ 18,137,000 |
| Other current liabilities | 9,726,835 | 8,652,677 |
| Retiree premiums received in advance | <u>374,943</u> | <u>425,830</u> |
| Total liabilities | 29,199,778 | 27,215,507 |
| Net position: | | |
| Invested in capital assets | 856,200 | 36,102 |
| Held for health care benefits | <u>382,979,609</u> | <u>288,820,694</u> |
| Total plan net position | <u>383,835,809</u> | <u>288,856,796</u> |
| Total liabilities and plan net position | <u>\$ 413,035,587</u> | <u>\$ 316,072,303</u> |

New Mexico Retiree Health Care Authority

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

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

CONDENSED STATEMENT OF CHANGES IN PLAN NET POSITION

| | <u>2014</u> | <u>2013</u> |
|---|--------------------------|--------------------------|
| Contributions and other revenue | \$ 274,012,154 | \$ 248,036,788 |
| Investment income (loss) | 51,373,767 | 27,684,772 |
| Taxation administration suspense fund revenue | 23,931,299 | 21,688,659 |
| Federal grants | <u>-</u> | <u>2,560,961</u> |
| Total additions | 349,317,220 | 299,971,180 |
| All operating expenses relating to premiums and claims | <u>254,338,207</u> | <u>234,484,255</u> |
| Change in plan net position | <u>\$ 94,979,013</u> | <u>\$ 65,486,925</u> |

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

| | <u>2014</u> | <u>2013</u> |
|-----------------------------------|-----------------------|-----------------------|
| Retirees | \$ 124,655,374 | \$ 110,956,530 |
| Employer | 80,921,576 | 79,504,335 |
| Employee | 40,460,819 | 39,752,197 |
| Employer buy-ins interest portion | <u>52,916</u> | <u>65,851</u> |
| | <u>\$ 246,090,685</u> | <u>\$ 230,278,913</u> |

Revenues from employer buy-ins are accrued in full upon entry into the Authority. There were no employers who entered the plan during 2014.

COMMENTARY

NMRHCA plan net position increased from \$288.8 million in FY13 to \$383.8 million in FY14.

- Cash balances decreased by \$17.3 million primarily due to timing in transferring funds into the SIC account.
- Investment holdings increased by \$108.9 million or 40 percent compared to FY13. Of this increase, cash transfers totaled \$57 million. Investment performance was led by gains made in the US Small/Mid Cap Pool, US Equity Composite, US Large Cap Index Pool and US Large Cap Enhanced Index Pool categories.

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

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

COMMENTARY - CONTINUED

- Outstanding current liabilities increased by \$1.98 million in FY14 due to accounts payable and reserve for loss and adjustment.
- Expenditures related to the health benefits administration program increased by \$21.2 million. This increase was driven by a 5 percent growth in retiree participation and a 3 percent increase in medical trend.
- The estimated incurred but not reported (IBNR) amount increased by \$961,000 or 5 percent in FY14.

BUDGETARY ANALYSIS

The FY14 approved operating budget totaled \$261 million including a \$1.7 million in personal services and employee benefits, \$256.1 million in contractual services, \$508 thousand in the other category, and \$2.7 million in the other financing uses category. Actual expenditures totaled \$257.1 million supported by revenues of \$297.8 million. Highlights are as follows:

- NMRHCA submitted a Budget Adjustment Request (BAR) increasing the personal services and to support an anticipated shortfall in salaries totaling \$39.1 thousand and \$43.9 thousand in other costs related to telecommunication, postage and printing services.
- Program Support ended FY14 \$111.5 thousand under budget with the bulk of that savings realized in the contractual services category followed by nominal savings in the other category and vacancy savings in the personal service and employee benefits category.
- Overall, NMRHCA experienced a \$40.7 million surplus in revenues for FY14.

CAPITAL ASSET ACTIVITY

NMRHCA acquired two capital assets in FY14 including a computer server, switches and other hardware. In addition, NMRHCA capitalized prior and current year professional services expenditures related to programming and development of the new eligibility, billing and accounting system. Depreciation of these expenditures will not be recorded until the computer system is implemented and operational. Both the hardware and professional services expenditures were funded through a Special Appropriation in the amount of \$1,946,300 (Laws 2012, 2nd Regular Session, Chapter 19, Section 7) for the REBIS upgrade and Enhancement Project authorized during the 2012 Legislative Session. The appropriation is scheduled to expire on June 30, 2016. See Schedule 6.

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

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

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 funding 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").

Beginning January 1, 2013, NMRCHA approved changes to the prescription drug plan that increased cost sharing for participants by requiring them to pay a percentage of the total drug cost combined with increasing the maximum amount members are responsible for on the non-Medicare Advantage plan. This change affected plan costs during the first half of FY14 (July 1st through December 31st) as NMRHCA establishes plans on a calendar year basis. In addition, the Board reduced dependent subsidies, introduced a co-pay differential for specialty care and increased rates on all self-insured medical plans in accordance with medical trend.

During the second half of FY14 (January 1st through June 30th), NMRHCA increased rates on all self-insured medical plans in accordance with medical trend, further reduced dependent subsidies and expanded the Medicare Advantage Plan offerings to include a nationwide PPO network. This enabled retirees who reside out-of-state access to a lower costing Advantage Plan previously unavailable.

Based upon the leadership by the Board of Directors, the June 2014 solvency analysis revealed continued improvements to the financial outlook for the agency including an extended solvency period through 2033, compared to 2029 in the previous year. This improvement withstood a downward revision in the assumption regarding payroll growth in future years. In addition, the Board's decision in 2013 to adopt an attestation of intent to avoid paying a "Cadillac Tax" on future benefits beginning in 2018; established a foundation for how the agency will manage costs in the future by limiting the value of its plan offerings in accordance with mandates prescribed in the Affordable Care Act.

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

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS – CONTINUED

Based on the GASB Statement 43 valuation as of June 30, 2014, and assuming that the NMRHCA Fund is an equivalent arrangement to an irrevocable trust and, hence using a discount rate of 5 percent, the unfunded actuarial accrued liability (“UAAL”) has been calculated to be approximately \$3.4 billion. The Annual Required Contribution (ARC) declined to \$292.7 million compared to \$353.6 million in 2012. Both the UAAL and the ARC are lower than the 2012 evaluation. Contributing factors to the improved financial outlook of the agency include: adoption of an attestation of intent by the Board of Directors to avoid paying a "Cadillac Tax" on future benefits beginning in 2018, continued reduction in multiple dependent subsidies, a 2 percent reduction in spousal subsidies, implementation of minimum years of service and age requirement beginning in 2020 and conversion of basic life insurance to a benefit paid for by the retiree beginning in 2017.

Notwithstanding the improvements identified in GASB valuation and solvency analysis, NMRHCA continues to explore opportunities to further extend the solvency of the program while maintaining a comprehensive and affordable benefit for existing retirees. In addition to aligning the value of the benefits provided by NMRHCA over the course of an average retirement, to contributions made over the course of an average career, NMRHCA is researching opportunities to improve health outcomes. In collaboration with other purchasers of health care benefits, NMRHCA is exploring opportunities to establish value based purchasing arrangements, in order to improve health outcomes and directly link those outcomes to plan costs. Lastly, but most importantly, NMRHCA will continue to pursue increases in employee and employer contributions to the program which will require Legislative and Executive approval.

Future Challenges

Looking ahead, there are a number of challenges facing NMRHCA including: limited growth in payroll, stagnate employee/employer contribution levels; limited competition in New Mexico's healthcare plan network; reductions in Medicare reimbursement rates, medical inflation, and uncertainties related to the impact of national healthcare reform.

New Mexico Retiree Health Care Authority

STATEMENT OF PLAN NET POSITION

June 30, 2014

ASSETS

| | |
|---|------------------------------|
| Short-term investments with State Treasurer | \$ 11,034,642 |
| Receivables | |
| Accounts receivable - employers, employees and participants | 10,254,023 |
| Accounts receivable - rebates and Medicare Part D | 6,808,256 |
| Taxation administration suspense fund revenue | 1,994,275 |
| Buy-in obligation receivable | 638,932 |
| Due from other governments | <u>1,185</u> |
| Total receivables | 19,696,671 |
| Prepaid expenses | 614 |
| Investments with State Investment Council | |
| Fixed income core bonds | 122,137,462 |
| Non US equities | 58,521,512 |
| Large cap index equities | 56,308,076 |
| Large cap - active equities | 56,212,873 |
| Mid/small cap equities | 45,212,768 |
| Emerging markets equities | <u>43,054,769</u> |
| Total investments | 381,447,460 |
| Capital assets | |
| Software development costs | 806,925 |
| Furniture and equipment | 172,475 |
| Less accumulated depreciation | <u>(123,200)</u> |
| Total capital assets | <u>856,200</u> |
| Total assets | <u><u>\$ 413,035,587</u></u> |

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

LIABILITIES

| | |
|--|----------------|
| Accounts payable | \$ 9,597,087 |
| Payroll liabilities | 37,411 |
| Compensated absences | 92,337 |
| Reserve for loss and loss adjustment expense | 19,098,000 |
| Retiree premiums received in advance | <u>374,943</u> |

| | |
|-------------------|------------|
| Total liabilities | 29,199,778 |
|-------------------|------------|

| | |
|-------------------------------|---|
| Commitments and contingencies | - |
|-------------------------------|---|

PLAN NET POSITION

| | |
|---|--------------------|
| Net investment in capital assets | 856,200 |
| Plan net position held in trust for other post employment benefits, restricted | <u>382,979,609</u> |

| | |
|-------------------------|--------------------|
| Total plan net position | <u>383,835,809</u> |
|-------------------------|--------------------|

| | |
|---|------------------------------|
| Total liabilities and plan net position | <u><u>\$ 413,035,587</u></u> |
|---|------------------------------|

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

New Mexico Retiree Health Care Authority

STATEMENT OF CHANGES IN PLAN NET POSITION

For the year ended June 30, 2014

ADDITIONS

| | |
|--|------------------------------|
| Contributions | |
| Retirees | \$ 124,655,374 |
| Employer | 80,921,576 |
| Employees | 40,460,819 |
| Employer buy-ins interest portion | <u>52,916</u> |
| Total contributions | 246,090,685 |
| Investment earnings | |
| Net increase in fair value of investments | 51,384,905 |
| Interest adjustment on short-term investments with State Treasurer | <u>(11,138)</u> |
| Total net investment earnings | 51,373,767 |
| Other additions | |
| Medicare Part D and rebates | 27,248,385 |
| Tax administration suspense fund revenue | 23,931,299 |
| Subrogation, refunds and miscellaneous | <u>673,084</u> |
| Total other additions | <u>51,852,768</u> |
| Total additions | 349,317,220 |
| DEDUCTIONS (ADDITIONS) | |
| Premiums and claims | 250,731,706 |
| General and administrative expenses | 2,636,743 |
| Losses and loss adjustment accrual increase | 961,000 |
| Depreciation expense | <u>8,758</u> |
| Total deductions | <u>254,338,207</u> |
| Change in plan net position | 94,979,013 |
| Plan net position, restricted, beginning of year | <u>288,856,796</u> |
| Plan net position, restricted, end of year | <u><u>\$ 383,835,809</u></u> |

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A – FINANCIAL REPORTING ENTITY

The New Mexico Retiree Health Care Authority (NMRHCA or the Authority) was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the 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;
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;

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE A – FINANCIAL REPORTING ENTITY – CONTINUED

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.

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.

Employer and employee contributions to NMRHCA total 3 percent for non-enhanced retirement plans and 3.75 percent of enhanced retirement plans of each participating employee's salary as required by 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer's participation in the NMRHCA.

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

The Authority has no component units.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

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) deferred outflows, liabilities - deferred inflows, 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 Position 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.

3. Short-Term Investments – State Treasurer

Short-term investments with the State Treasurer include NMRHCA's pro rata share of liquid investment pools held by the New Mexico State Treasurer. Deposits with the State Treasurer are required to be collateralized at a minimum level of 50 percent. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits and the market value of purchased investments. The only checking account is a zero balance lock box depository at the State Fiscal Agent and monies are transferred daily to the State Treasurer.

4. Property and Equipment

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

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

6. Budgetary Process and Budgetary Basis of Accounting

The Authority prepares its budget on the accrual basis except that investment gain and loss and changes in incurred, but not reported claims expenses are not budgeted. 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 two budgets reflecting the Health Benefits Administration Fund and Program Support Fund. The legal level of budgetary control is at the functional level. Budget Adjustment 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 in FY14 increasing expenditures for personal services and employee benefits and other costs in Program Support.

7. Accounts Receivable and Employer Buy-Ins

Accounts receivable derived from employers and participants consist of amounts due from employers for contributions relating to payrolls paid prior to June 30, 2014 and amounts due from retirees for monthly premiums. Advance premiums from retirees are recorded as unearned revenues.

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 thirteen years and are in addition to regular monthly contributions.

8. Restricted Plan Net Position

Net position 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 position 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

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

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.

10. OPEB Actuarial Valuation

The Authority's Post Retirement Employee Benefits (OPEB) program actuarial valuation was conducted by the Segal Company, Phoenix, Arizona, as of June 30, 2014. 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.

11. New Accounting Standards

GASB 65

NMRHCA implemented Governmental Accounting Standards Board Statement No. 65 "Items Previously Reported as Assets and Liabilities" (GASB 65) for the year ending June 30, 2014. GASB 65 changes the classification of various financial statement balances including several more common type transactions to deferred outflows and inflows of resources. GASB 65 is applicable for years beginning after December 15, 2012. The Authority implemented GASB 65 for the year ending June 30, 2014.

GASB 68

Governmental Accounting Standards Board Statement No. 68 "Accounting and Financial Reporting for Pensions" (GASB 68) revises existing guidance for governments that provide their employees with pension benefits. A principal change is the requirement to record a government's pro rata share of unfunded actuarial accrued liability (UAAL) on its financial statements for multiemployer cost sharing plan. The Authority is a participating member of the Public Employees Retirement Association (PERA), multiemployer cost sharing plans. Information to implement this standard will be developed by PERA and the State of New Mexico. The implementation date for GASB 68 is for FY15. The current status of the unfunded liability for PERA is \$4.62 billion based on the most recently issued audited financials statement at June 30, 2013. Legislation was passed during the 2013 legislative session changing PERA's plan benefits design and contribution requirements to fully fund UAAL within 30 years. The Authority will record a material liability for the year ending June 30, 2015 for pension participation.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

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

11. New Accounting Standards – Continued

EXPOSURE DRAFTS

The Governmental Accounting Standards Board has proposed two statements entitled “Accounting and Financial Reporting for Post Employment Benefits Other than Pensions and Financial Reporting for Post Employment Benefit Plans Other than Pension Plans.” The comment period ended August 29, 2014 and public hearings and deliberations are being held currently. The proposed statements would substantially change the requirements of GASB 43 for plan reporting and require the recording of a prorata liability of unfunded UAAL for each plan employer participating in the plan. The proposed statements would be effective for the years beginning after December 15, 2016. Management is monitoring the progress of the proposed statements.

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 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.

Management will review the statement requirements on an ongoing basis for effects on operations.

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 position of the Authority is 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, 2014

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 has obtained 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, 2014 and 2012.

| | <u>June 30, 2014</u> | <u>June 30, 2012</u> |
|--|----------------------|----------------------|
| Plan membership: | | |
| Current retirees and surviving spouses | 36,021 | 32,689 |
| Inactive and eligible for deferred benefit | 11,710 | 13,318 |
| Current active members | <u>96,069</u> | <u>90,083</u> |
| | <u>143,800</u> | <u>136,090</u> |
| Active membership: | | |
| State general | 19,046 | 16,400 |
| State police and corrections | 1,784 | 1,510 |
| Municipal general | 19,810 | 18,648 |
| Municipal police | 3,492 | 3,194 |
| Municipal FTRE | 1,959 | 1,864 |
| ERB | <u>49,978</u> | <u>48,467</u> |
| | <u>96,069</u> | <u>90,083</u> |

New Mexico Retiree Health Care Authority

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

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% |
| June 30, 2012 | 227,487,895 | 3,915,114,104 | 3,687,626,209 | 5.81% | 3,877,827,061 | 95% |
| June 30, 2014 | 377,087,017 | 3,740,367,299 | 3,363,280,282 | 10.08% | 3,941,587,760 | 85% |

| | |
|--|---|
| Valuation date | June 30, 2014 |
| Actuarial cost method | Entry age normal, level percent of pay, calculated on individual employee basis |
| 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, 2014 |
| Asset valuation method | The actuarial value of assets is the market value of assets |
| Actuarial assumptions: | |
| Discount rate | 5.00% |
| Projected payroll increases | 3.50% |
| 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% |

Note: Schedule of funding progress is based on healthcare laws and regulations existing at June 30, 2014.

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

| Plan Year Beginning | Annual Required Contributions | Actual Contributions Employers | Percentage Contributed |
|---------------------|-------------------------------|--------------------------------|------------------------|
| July 1, 2008 | \$ 275,517,523 | \$ 94,059,722 | 34.1% |
| July 1, 2009 | 286,538,244 | 96,816,528 | 33.8% |
| July 1, 2010 | 297,999,753 | 114,847,107 | 38.5% |
| July 1, 2011 | 326,994,988 | 120,873,224 | 37.0% |
| July 1, 2012 | 340,074,787 | 142,053,551 | 41.8% |
| July 1, 2013 | 353,657,828 | 135,388,449 | 38.3% |
| July 1, 2014 | 292,656,765 | 149,277,185 | 51.0% |

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

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 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 No. 45

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

The following changes in assumptions were made for the year ended June 30, 2014:

- 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.

New Mexico Retiree Health Care Authority

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

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 percent of the employee's hourly wage. The total vacation and sick leave accrual at June 30, 2014 was \$92,337.

| Balance as of June 30, 2013 | Additions | Deletions | Balance as of June 30, 2014 | Amount Due Within One Year |
|--------------------------------|-----------|-----------|--------------------------------|-------------------------------|
| \$ 80,060 | \$ 78,412 | \$ 66,135 | \$ 92,337 | \$ 92,337 |

NOTE E – PROPERTY AND EQUIPMENT

A summary of furniture and equipment at June 30, 2014 is as follows:

CAPITAL ASSETS ROLLFORWARD

| Description | Balance at 6/30/2013 | Additions | Deletions | Balance at 6/30/2014 |
|-------------------------|-------------------------|-------------------|-------------|-------------------------|
| Furniture and equipment | \$ 150,544 | \$ 21,931 | \$ - | \$ 172,475 |
| Software in development | - | 806,925 | - | 806,925 |
| | <u>\$ 150,544</u> | <u>\$ 828,856</u> | <u>\$ -</u> | <u>\$ 979,400</u> |

ACCUMULATED DEPRECIATION ROLLFORWARD

| Description | Balance at 6/30/2013 | Additions | Deletions | Balance at 6/30/2014 |
|--------------------------|-------------------------|------------|-----------|-------------------------|
| Accumulated depreciation | \$ (114,442) | \$ (8,758) | \$ - | \$ (123,200) |

Depreciation expense was \$8,758 for the year ended June 30, 2014 of which \$6,755 of depreciation was allocated to Program Support while \$2,003 was allocated to Healthcare Benefits Administration Program.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE F – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT PLAN

1. Plan Description

Substantially all of the Authority'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 benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

2. Funding Policy

Plan members are required to contribute 8.92 percent of their gross pay. The Authority is required to contribute 16.59 percent 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, 2014, 2013 and 2012 was \$196,976, \$160,887, and \$150,276, respectively, equal to the amount of the required contributions for each fiscal year.

NOTE G – RETIREE HEALTH CARE ACT PLAN

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

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

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

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE G – RETIREE HEALTH CARE ACT PLAN – CONTINUED

The post-employment benefit accrual basis revenues and expenses excluding IBNR balances relating to the approximately 55,881 retirees participating in the plan for the year ended June 30, 2014 consisted of:

| | |
|---|-----------------------|
| Retiree/employer/employee contributions | \$ 246,037,769 |
| Premiums and claims | <u>(251,692,706)</u> |
| Net expenditures | <u>\$ (5,654,937)</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.

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 New Mexico Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

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

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 percent of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from NMRHCA or viewed on their website at www.nmrhca.state.nm.us.

The employer, employee and retiree contributions are required to be remitted to the NMRHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the NMRHCA fund in the amount determined to be appropriate by the Board.

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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.5 percent of each participating employee's annual salary; and each participating employee was required to contribute 1.25 percent of their salary. For employees that were not members of an enhanced plan during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2 percent of each participating employee's annual salary; each participating employee was required to contribute 1 percent of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2014, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The NMRHCA's contributions to the NMRHCA for the year ended June 30, 2014, 2013, and 2012 were \$23,785, \$21,337, and \$20,547, respectively, which equal the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE I – RESERVE FOR LOSSES AND LOSS ADJUSTMENTS

The amount shown on the accompanying Statement of Plan Net Position 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, 2014, while the amount shown on the accompanying Statement of Changes in Plan Net Position as losses and loss adjustment expenses represents the change in this estimate during the year ended June 30, 2014. 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, 2013</u> | <u>Balance as of June 30, 2014</u> | <u>Current Portion</u> |
|-------------------------------|--|--|------------------------|
| Estimated Claims Liability | <u>\$ 18,137,000</u> | <u>\$ 19,098,000</u> | <u>\$ 19,098,000</u> |

The increase in the estimated claims liability or “incurred but not reported reserve” (IBNR reserve) of \$961,000 was attributable to increase in number or participants and claims. The most recent number represents liability for outstanding claims for services rendered prior to July 1, 2014 and paid after June 30, 2014.

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. NMRHCA renewed the agreement effective December 8, 2011.

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 by 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE J – JOINT POWERS AGREEMENTS – CONTINUED

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, 2014:

| | <u>Fair Value</u> | <u>Units</u> |
|-----------------------------|---------------------------|--------------|
| Fixed income core bonds | \$ 122,137,462 | 42,131 |
| Non US equities | 58,521,512 | 34,633 |
| Large cap index equities | 56,308,076 | 21,306 |
| Large cap - active equities | 56,212,873 | 15,214 |
| Mid/small cap equities | 45,212,768 | 14,022 |
| Emerging markets equities | <u>43,054,769</u> | 9,020 |
| Total | <u>\$ 381,447,460</u> | |

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE K – INVESTMENTS – CONTINUED

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, 2014:

| | |
|---|-----------------------|
| Fair value as of June 30, 2013 | \$ 272,562,555 |
| Add: Contributions | 57,500,000 |
| Add: Net market increases during fiscal year 2014 | 51,384,905 |
| Less: Withdrawals | <u>-</u> |
| Fair value as of June 30, 2014 | <u>\$ 381,447,460</u> |

The Authority follows 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 \$853,175 charged during the year ending June 30, 2014. Such fees are deducted from the ending investment account balance on a monthly basis in accordance with the joint powers agreement (See Note J).

Investments of the Authority also consist of its interest in the State Treasurer General Fund Investment Pool (GFIP), 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, 2014 is as follows:

| Fund | SHARE Fund No. | Fair Value June 30, 2014 |
|----------------------------|-------------------|-----------------------------|
| Benefits Fund | 38100 | \$ 10,964,848 |
| Administrative Fund | 38000 | 52,906 |
| Discount Prescription Fund | 81000 | <u>16,888</u> |
| | | <u>\$ 11,034,642</u> |

See also Notes U and V for more information on the GFIP at June 30, 2014.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE L – 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 and NMSA 1978, Section 7-1-6.56.

Transfers from the New Mexico Taxation and Revenue Suspense Fund are based on an additional amount of \$3,000,000 per year with a 12 percent per annum increase of carryforward contribution amounts beginning July 1, 2002. Monies are transferred on the month following the month due and any amount due to 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, 2014, the total revenue was \$23,931,299.

NOTE M – 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.

NOTE N – 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE N – COMMITMENTS AND CONTINGENCIES – CONTINUED

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 San 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 October 30, 2015 and August 30, 2016. The Authority has a 4-year copier lease for two machines ending December 15, 2014 and June 30, 2015. 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,

| | | |
|------------|----|-----------------------|
| 2015 | \$ | 191,532 |
| 2016 | | 158,513 |
| 2017 | | 111,744 |
| 2018 | | 111,985 |
| 2019 | | 112,469 |
| Thereafter | | <u>141,235</u> |
| | \$ | <u><u>827,478</u></u> |

Total lease expense for 2014 is \$201,243.

NOTE O – OPERATING TRANSFERS

The following operating transfers occurred between the NMRHCA functional activities during the year ended June 30, 2014:

| | Benefits 38100 <u>From (To)</u> | Administration 38000 <u>From (To)</u> |
|------------------------------|---------------------------------------|---|
| Administration appropriation | \$ (2,748,300) | \$ 2,748,300 |
| Reversion of administration | <u>111,557</u> | <u>(111,557)</u> |
| | <u>\$ (2,636,743)</u> | <u>\$ 2,636,743</u> |

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE P – 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. 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 \$2,748,300 appropriation from the Benefits Fund to the Administration Fund for fiscal year 2014 (Laws 2012, Chapter 19, Section 4). An amount of \$111,557 is accrued for reversion for fiscal year 2014 to the Benefits Fund. No State General Fund appropriation was made to the Discount Prescription Drug Program for fiscal year 2014 (Laws 2012, Chapter 19, Section 4). The Discount Prescription Drug Program is non-reverting fund. A special appropriation of \$1,946,300 for the replacement of the Retiree Benefit Software System is in place and the appropriation expires in 2016 unless extended.

NOTE Q – ACCOUNTS RECEIVABLE

The Authority receives contributions monthly from employers who remit the employer portion and the employee portion withheld from employees. Contributions are statutory, based on the number of employees reported by each employer for the month. Because the number of employees can change in any month, the Authority does not bill employers. The Authority depends on monthly reporting and contributions from employers. Accounts receivable also includes amounts to be received for Medicare Part D. There is no allowance for uncollectible receivables recorded at June 30, 2014, as management deems any uncollectible amounts as immaterial.

NOTE R – BUY-IN OBLIGATION RECEIVABLE

As of June 30, 2014, buy-in receivables include the following:

| | |
|--------------------|-------------------|
| City of Rio Rancho | \$ 480,404 |
| County of Lincoln | 103,863 |
| City of Bloomfield | <u>54,665</u> |
| | <u>\$ 638,932</u> |

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE R – BUY-IN OBLIGATION RECEIVABLE – CONTINUED

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

| | | |
|-----------------|----|----------------|
| Current portion | \$ | 131,339 |
| Long-term | | <u>507,593</u> |
| | \$ | <u>638,932</u> |

NOTE S – 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 T – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 18, 2014 to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2014. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

NOTE U – GENERAL FUND INVESTMENT POOL NOT RECONCILED

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (GFIP or the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies in the Pool.

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE U – GENERAL FUND INVESTMENT POOL NOT RECONCILED – CONTINUED

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

Phase I of the Cash Management Remediation Project (completed in May 2013) implemented statewide business process changes and corrected numerous SHARE System configurations. As a result of the changes and corrections, DFA/FCD was able to begin reconciling activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. However, additional critical business process changes and corrections to configurations within the SHARE System remain to be completed; therefore, Cash Management Remediation Project, Phase II, commenced July 2014. Its scope was to perform reconciliations from July 2006 to January 2013. It is not completed as of November 2014.

For prior fiscal years, DFA recorded a loss contingency of \$101.7 million in the General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool; that estimate has not been changed to date. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

The Authority reconciles its deposits and other activity with the State Treasurer to the General Ledger on a periodic basis to ensure proper posting.

NOTE V – INTEREST IN THE GENERAL FUND INVESTMENT POOL

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

At June 30, 2014, the Authority had the following invested in the General Fund Investment Pool (GFIP):

General Fund Investment Pool \$11,034,642.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE V – INTEREST IN THE GENERAL FUND INVESTMENT POOL – CONTINUED

GFIP Balance Concern - The circumstances recorded in Note U raise a concern regarding the accuracy of the Authority's share of the GFIP. Due to the fiduciary and specialized nature of the Authority, a supplementary system of the general ledger accrued account balances, including GFIP balances have been maintained and reconciled to SHARE since the inception of SHARE for all deposits received by the Authority. Additionally, a large percentage of the Authority's disbursements are made by wire transfer in larger amounts to contractors and to the investment custodian, which are validated during the year. The Authority's administrative fund is reverting, which does not permit a carryover balance from year to year. All such reversions have been audited from the inception of SHARE. For these reasons, the Authority believes the GFIP balance value of \$11,034,642 materially approximates their share of the GFIP at June 30, 2014. Any adjustments to the GFIP balance that might exist at June 30, 2014 are not known at this time.

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

Credit risk - The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2014.

NOTE W – FUND BALANCE RECLASS

An adjustment was made to reclass \$216,543 of Rebis Software development expenditures for FY2013 from the Administration Fund 38000 to Benefits Fund 38100. This reclass conforms to appropriation language which specified fund 38100 as the recipient of the software. There was no effect on overall beginning net position as of June 30, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

New Mexico Retiree Health Care Authority

SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

June 30, 2014

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% |
| June 30, 2012 | 227,487,895 | 3,915,114,104 | 3,687,626,209 | 5.81% | 3,877,827,061 | 95% |
| June 30, 2014 | 377,087,017 | 3,740,367,299 | 3,363,280,282 | 10.08% | 3,941,587,760 | 85% |

| | |
|--|---|
| Valuation date | June 30, 2014 |
| Actuarial cost method | Entry age normal, level percent of pay, calculated on individual employee basis |
| 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, 2014 |
| Asset valuation method | The actuarial value of assets is the market value of assets |
| Actuarial assumptions: | |
| Discount rate | 5.00% |
| Projected payroll increases | 3.50% |
| 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% |

Note: Schedule of funding progress is based on healthcare laws and regulations existing at June 30, 2014.

FACTORS AFFECTING AMOUNTS AND TRENDS REPORTED

The fifth actuarial study based on GASB 43 requirements has been completed and decreases are reported or the year ended June 30, 2014 in the UAAL and ARC. Factors in these reported increases are as follows:

Both the UAAL and the AAL are slightly lower than the 2012 evaluation. Major factors in this determination include the ration of assets to the actuarially accrued liability (the funded ratio), updates to the vesting schedule including a minimum retirement age and gradual elimination of subsidies provided for the basic life insurance benefit.

New Mexico Retiree Health Care Authority

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

June 30, 2014

| Plan Year Beginning | Annual Required Contributions | Actual Contributions Employers | Percentage Contributed |
|--------------------------------|--|---|-----------------------------------|
| July 1, 2008 | \$ 275,517,523 | \$ 94,059,722 | 34.1% |
| July 1, 2009 | 286,538,244 | 96,816,528 | 33.8% |
| July 1, 2010 | 297,999,753 | 114,847,107 | 38.5% |
| July 1, 2011 | 326,994,988 | 120,873,224 | 37.0% |
| July 1, 2012 | 340,074,787 | 142,053,551 | 41.8% |
| July 1, 2013 | 353,657,828 | 135,388,449 | 38.3% |
| July 1, 2014 | 292,656,765 | 149,277,185 | 51.0% |

SUPPLEMENTARY INFORMATION

New Mexico Retiree Health Care Authority

COMBINING SCHEDULE OF PLAN NET POSITION BY FUNCTIONAL ACTIVITY

June 30, 2014

| | Benefits - 38100 | Administration - 38000 | Discount Prescription - 81000 | Eliminations | Total |
|--|-----------------------|---------------------------|-------------------------------------|---------------------|-----------------------|
| ASSETS | | | | | |
| Short-term investments with State Treasurer | \$ 10,964,848 | \$ 52,906 | \$ 16,888 | \$ - | \$ 11,034,642 |
| Receivables | | | | | |
| Accounts receivable - employers, employees and participants | 10,253,342 | 681 | - | - | 10,254,023 |
| Accounts receivable - rebates and Medicare Part D | 6,808,256 | - | - | - | 6,808,256 |
| Taxation administration suspense fund revenue | 1,994,275 | - | - | - | 1,994,275 |
| Buy-in obligation receivable | 638,932 | - | - | - | 638,932 |
| Due from other governments | 1,150 | 35 | - | - | 1,185 |
| Due from other funds | 111,557 | - | - | (111,557) | - |
| Total receivables | 19,807,512 | 716 | - | (111,557) | 19,696,671 |
| Prepaid expenses | - | 614 | - | - | 614 |
| Long-term investments with State Investment Council | | | | | |
| Fixed income core bonds | 121,604,133 | 533,329 | - | - | 122,137,462 |
| Non US equities | 58,265,970 | 255,542 | - | - | 58,521,512 |
| Large cap index | 56,062,199 | 245,877 | - | - | 56,308,076 |
| Large cap - active | 55,967,412 | 245,461 | - | - | 56,212,873 |
| Mid/small cap | 45,015,341 | 197,427 | - | - | 45,212,768 |
| Emerging markets | 42,866,765 | 188,004 | - | - | 43,054,769 |
| Total investments | 379,781,820 | 1,665,640 | - | - | 381,447,460 |
| Capital assets | | | | | |
| Software development costs | 806,925 | - | - | - | 806,925 |
| Equipment and furniture | 21,931 | 150,544 | - | - | 172,475 |
| Less accumulated depreciation | (2,003) | (121,197) | - | - | (123,200) |
| Total capital assets | 826,853 | 29,347 | - | - | 856,200 |
| Total assets | <u>\$ 411,381,033</u> | <u>\$ 1,749,223</u> | <u>\$ 16,888</u> | <u>\$ (111,557)</u> | <u>\$ 413,035,587</u> |
| LIABILITIES | | | | | |
| Accounts payable | \$ 9,465,224 | \$ 131,863 | \$ - | \$ - | \$ 9,597,087 |
| Payroll liabilities | - | 37,411 | - | - | 37,411 |
| Compensated absences | - | 92,337 | - | - | 92,337 |
| Reserve for loss and loss adjustment expense | 19,098,000 | - | - | - | 19,098,000 |
| Due to other funds | - | 111,557 | - | (111,557) | - |
| Retiree premiums received in advance | 374,943 | - | - | - | 374,943 |
| Total liabilities | 28,938,167 | 373,168 | - | (111,557) | 29,199,778 |
| PLAN NET POSITION | <u>382,442,866</u> | <u>1,376,055</u> | <u>16,888</u> | <u>-</u> | <u>383,835,809</u> |
| Total liabilities, deferred inflows and plan net position | <u>\$ 411,381,033</u> | <u>\$ 1,749,223</u> | <u>\$ 16,888</u> | <u>\$ (111,557)</u> | <u>\$ 413,035,587</u> |

New Mexico Retiree Health Care Authority

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

For the year ended June 30, 2014

| | Benefits - 38100 | Administration - 38000 | Discount Prescription - 81000 | Eliminations | Total |
|--|-----------------------|---------------------------|-------------------------------------|--------------|-----------------------|
| ADDITIONS | | | | | |
| Contributions | | | | | |
| Retiree | \$ 124,655,374 | \$ - | \$ - | \$ - | \$ 124,655,374 |
| Employer/employee | 121,382,395 | - | - | - | 121,382,395 |
| Employer buy-ins interest portion | 52,916 | - | - | - | 52,916 |
| Total contributions | 246,090,685 | - | - | - | 246,090,685 |
| Investment earnings | | | | | |
| Net increase in fair value of investments | 51,160,526 | 224,379 | - | - | 51,384,905 |
| Interest adjustment | (11,529) | 391 | - | - | (11,138) |
| Total net investment earnings | 51,148,997 | 224,770 | - | - | 51,373,767 |
| Other additions | | | | | |
| Medicare Part D and rebates | 27,248,385 | - | - | - | 27,248,385 |
| Taxation administration suspense fund revenue | 23,931,299 | - | - | - | 23,931,299 |
| Subrogation, refunds and miscellaneous | 672,229 | 855 | - | - | 673,084 |
| Total other additions | 51,851,913 | 855 | - | - | 51,852,768 |
| Total additions | 349,091,595 | 225,625 | - | - | 349,317,220 |
| DEDUCTIONS | | | | | |
| Premiums and claims | 250,731,706 | - | - | - | 250,731,706 |
| General and administrative expenses | - | 2,636,743 | - | - | 2,636,743 |
| Losses and loss adjustment expenses | 961,000 | - | - | - | 961,000 |
| Depreciation | 2,003 | 6,755 | - | - | 8,758 |
| Total deductions | 251,694,709 | 2,643,498 | - | - | 254,338,207 |
| Transfer (out) in, net of reversion | (2,636,743) | 2,636,743 | - | - | - |
| Change in plan net position | 94,760,143 | 218,870 | - | - | 94,979,013 |
| Plan net position, beginning of year | 287,466,180 | 1,373,728 | 16,888 | - | 288,856,796 |
| Adjustment to net position * | 216,543 | (216,543) | - | - | - |
| Plan net position end of year | \$ 382,442,866 | \$ 1,376,055 | \$ 16,888 | \$ - | \$ 383,835,809 |

* Fund transfer to reclass recording of appropriation for benefit software presented in financial statements for the year ended June 30, 2013. Note W.

New Mexico Retiree Health Care Authority

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

For the year ended June 30, 2014

| | Fund 38100 | | | |
|---|-----------------------|-----------------------|----------------------|---------------------------------|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| REVENUES | | | | |
| Retiree contributions | \$ 112,126,500 | \$ 112,126,500 | \$ 124,655,374 | \$ 12,528,874 |
| Employer/employee contributions | 104,459,700 | 104,459,700 | 121,435,311 | 16,975,611 |
| Pension taxes | 23,931,300 | 23,931,300 | 23,931,299 | (1) |
| Investment income | 26,700 | 26,700 | (11,529) | (38,229) |
| Miscellaneous revenue | 17,774,700 | 17,774,700 | 27,813,177 | 10,038,477 |
| Total revenues | 258,318,900 | 258,318,900 | 297,823,632 | 39,504,732 |
| EXPENSES | | | | |
| Personal services/employee benefits | - | - | - | - |
| Contractual services | 255,653,600 | 255,653,600 | 251,453,125 | 4,200,475 |
| Total expenses | 255,653,600 | 255,653,600 | 251,453,125 | 4,200,475 |
| TRANSFERS | | | | |
| Transfers in - Intra agency from SHARE 38000 - reversion | - | - | 111,557 | 111,557 |
| Transfers out - Intra agency to SHARE 38000 | (2,665,300) | (2,748,300) | (2,748,300) | - |
| Total transfers | \$ (2,665,300) | \$ (2,748,300) | (2,636,743) | \$ 111,557 |
| Net change in net position (budgetary basis) | | | 43,733,764 | |
| Gain on investments excluding interest | | | 51,160,526 | |
| Capital outlay - software development | | | 828,856 | |
| Depreciation | | | (2,003) | |
| Change in IBNR liability | | | (961,000) | |
| Change in plan net position, GAAP basis | | | \$ 94,760,143 | |

New Mexico Retiree Health Care Authority

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

For the year ended June 30, 2014

| | Fund 38000 | | | |
|--|---------------------|---------------------|-------------------|---------------------------------|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| REVENUES | | | | |
| Employer/employee contributions | \$ - | \$ - | \$ - | \$ - |
| Pension taxes | - | - | - | - |
| Investment income | - | - | 391 | 391 |
| Other financial sources | - | - | 855 | 855 |
| Total revenues | - | - | 1,246 | 1,246 |
| EXPENSES | | | | |
| Personal services/employee benefits | 1,712,000 | 1,751,100 | 1,742,405 | 8,695 |
| Contractual services | 445,200 | 445,200 | 359,325 | 85,875 |
| Other | 508,100 | 552,000 | 535,013 | 16,987 |
| Total expenses | 2,665,300 | 2,748,300 | 2,636,743 | 111,557 |
| TRANSFERS | | | | |
| Transfers in - Intra agency from SHARE 38100 | 2,665,300 | 2,748,300 | 2,748,300 | - |
| Transfers out - Intra agency to SHARE 38100 - reversion | - | - | (111,557) | 111,557 |
| Total transfers | \$ 2,665,300 | \$ 2,748,300 | 2,636,743 | \$ 111,557 |
| Net change in net position | | | 1,246 | |
| Gain on investments excluding interest | | | 224,379 | |
| Depreciation | | | (6,755) | |
| Change in plan net position, GAAP basis | | | \$ 218,870 | |

New Mexico Retiree Health Care Authority

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

For the year ended June 30, 2014

| | 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 position | | | - | |
| State general fund reversion expense | | | - | |
| Change in plan net position, GAAP basis | | | <u>\$ -</u> | |

This fund was not budgeted for FY14 due to no activity in recent years.

OTHER SUPPLEMENTARY INFORMATION

New Mexico Retiree Health Care Authority

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

For the year ended June 30, 2014

| | Benefits - 38100 | Administration - 38000 | Discount Prescription - 81000 | Total |
|--|---------------------|---------------------------|-------------------------------------|---------------------|
| GENERAL AND ADMINISTRATIVE EXPENSES | | | | |
| Professional services | \$ - | \$ 1,202,304 | \$ - | \$ 1,202,304 |
| Employee benefits | - | 540,101 | - | 540,101 |
| Operating costs | 19,865 | 446,933 | - | 466,798 |
| Contractual services | (135,862) | 359,325 | - | 223,463 |
| Supplies | - | 50,153 | - | 50,153 |
| In-state travel | - | 23,165 | - | 23,165 |
| Repairs and maintenance | 8,560 | 11,584 | - | 20,144 |
| Out-of-state travel | - | 3,178 | - | 3,178 |
| Total | <u>\$ (107,437)</u> | <u>\$ 2,636,743</u> | <u>\$ -</u> | <u>\$ 2,529,306</u> |

New Mexico Retiree Health Care Authority

COMBINING SCHEDULE OF SHORT-TERM INVESTMENTS

For the year ended June 30, 2014

| | Benefits - 38100 | Administration - 38000 | Discount Prescription - 81000 | Total |
|------------------------------|----------------------|---------------------------|-------------------------------------|----------------------|
| Investment balances per DFA- | | | | |
| New Mexico State Treasurer | | | | |
| Share Fund 34300-38100 | \$ 10,964,848 | \$ - | \$ - | \$ 10,964,848 |
| Share Fund 34300-38000 | - | 52,906 | - | 52,906 |
| Share Fund 34300-81000 | - | - | 16,888 | 16,888 |
| Reconciling items - none | - | - | - | - |
| | <u>\$ 10,964,848</u> | <u>\$ 52,906</u> | <u>\$ 16,888</u> | <u>\$ 11,034,642</u> |

Please see Note K for more information.

New Mexico Retiree Health Care Authority

SCHEDULE OF APPROPRIATIONS

For the year ended June 30, 2014

| Description | Authority | Appropriation Period | Share Fund | Total Appropriation | Prior Year Expenditures | Current Year Expenditures | Current Year Reversion Amount |
|---|--|-------------------------|---------------|------------------------|----------------------------|------------------------------|-------------------------------------|
| Program support for Administrative Fund | Laws 2013 House Bill 2, Chapter 227 Section 4 | 2014 | 38000 | \$ 2,748,300 | \$ - | \$ 2,636,743 | \$ 111,557 |
| Replace Retiree Benefits System (REBIS) | Laws 2012 House Bill 2, Chapter 19 Section 7 | 2013-2016 | 38100 | \$ 1,946,300 | \$ 216,543 | \$ 668,329 | \$ - |

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 O. Unexpended amounts under the special appropriation are not recognized until all eligibility requirements have been fulfilled under the appropriation including the expenditure of allowable amounts.



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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 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, the accompanying Statement of Plan Net Position and Statement of Changes in Plan Net Position for the fiduciary activities of the New Mexico Retiree Health Care Authority (NMRHCA or the Authority), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the New Mexico Retiree Health Care Authority's basic financial statements as listed in the table of contents. We have also audited the Combining Schedules of Plan Net Position by Functional Activity and Changes in Plan Net Position by Functional Activity and the Schedules of Revenues and Expenses – Budget and Actual by Functional Activity presented as supplementary information as of and for the year ended June 30, 2014 as listed in the table of contents and have issued our report thereon dated November 18, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

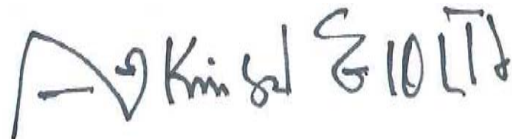
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 an instance of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2014-001.

The Authority's Response to Findings

The Authority's response to the finding in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly we express no opinion on it.

Purpose of this Report

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

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

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 18, 2014

New Mexico Retiree Health Care Authority

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2014

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

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

2014-001 – Timely remittance of deposits

RESOLUTION OF PRIOR YEAR FINDINGS

None

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2014

CURRENT YEAR AUDIT FINDINGS

2014-001 TIMELY REMITTANCE OF DEPOSITS

Condition

The Authority receives checks, cashier's check and money orders from various entities and individuals related to premiums, rebates, and fees received from customers on a walk-in basis. In 2 out of 20 items tested, the Authority made the deposit past the succeeding business day from the receipt of the monies. This is not in compliance with 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

The Authority's Santa Fe office would mail checks received to the Albuquerque Wells Fargo Lockbox, where the checks are flown to Denver for deposit. The mailing between sites did cause a 1 day delay in processing. The two to three days includes weekends.

Effect

The Authority was not in compliance with New Mexico State Statutes.

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. It is our understanding that such steps were taken subsequent to year end, in that both the Albuquerque and Santa Fe locations have implemented electronic check scanning to deposit checks the same day as received.

Management's Response

Management agrees with the finding and is deploying the necessary resources to eliminate the conditions leading to the untimely remittance of deposits. First, all finance and customer service staff located in Santa Fe has been made aware of the requirements according to 6-10-3 NMSA 1978, as well as the implications for failing to meet these requirements. In addition, NMRHCA has implemented a check scanning process eliminating the need to physically deliver checks to the bank or mail them to the Wells Fargo Lockbox. All staff involved in the depositing of checks has been trained in the process with specific emphasis placed on the timely deposit of all checks.

New Mexico Retiree Health Care Authority

EXIT CONFERENCE

June 30, 2014

An exit conference was held on December 3, 2014 in a closed session, with the following in attendance:

**NM Retiree Health Care Authority
Personnel and Board Members**

Jan Goodwin, Board Member,
Audit Committee Chairperson

Tom Sullivan, Chairman

Joe Montano, Vice-Chairman

Doug Crandall, Secretary

Karen Sucher, Board Member

Wayne Propst, Board Member

Terry Linton, Board Member

Mark Tyndall, Executive Director

David Archuleta, Deputy Director

Debbie Vering, CFO

**Atkinson & Co., Ltd.
Personnel**

Martin Mathisen, CPA, CGFM,
Audit Director

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

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